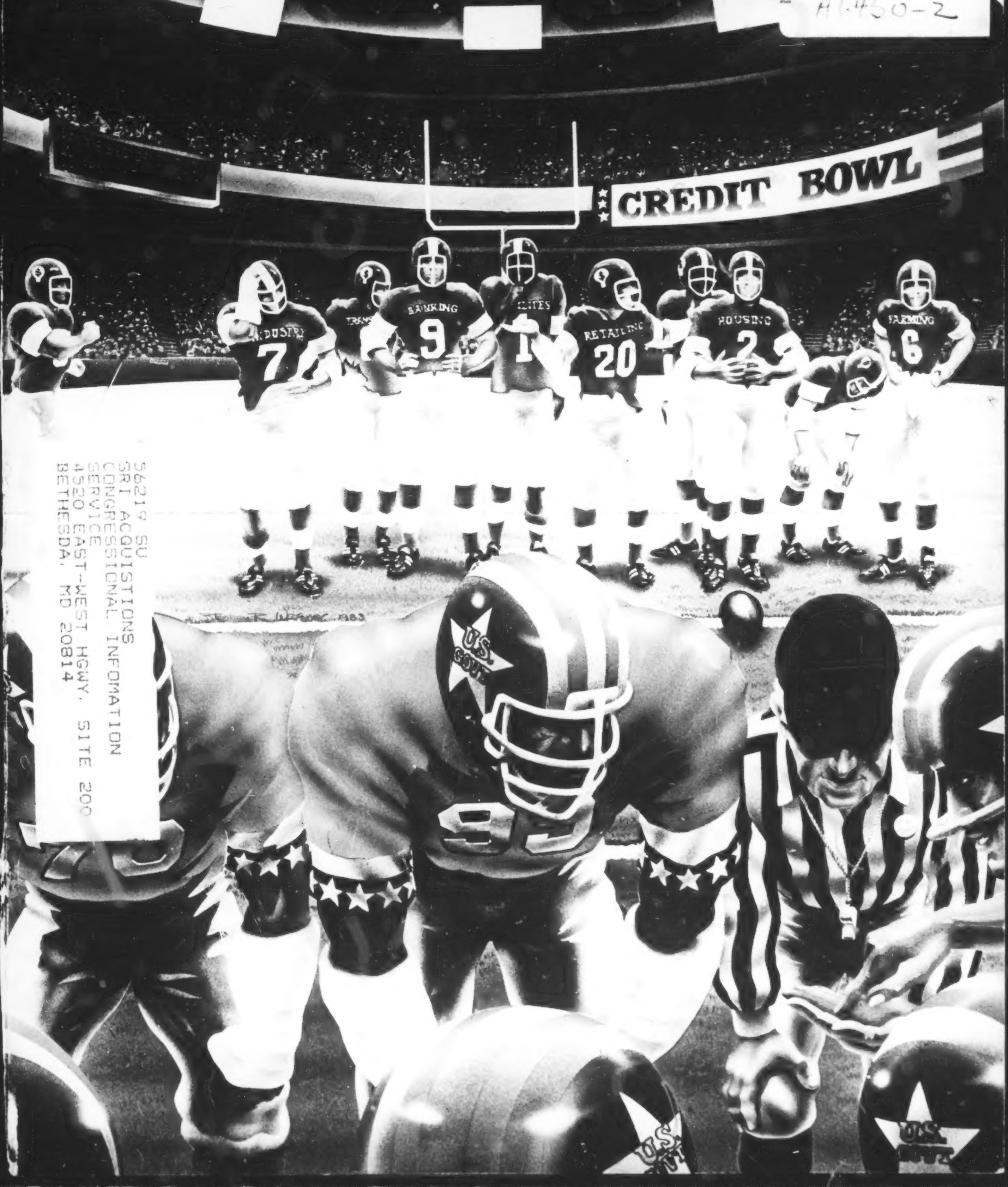
MORTGAGE BANKING

NOVEMBER 1983

The Magazine of Real Estate Finance

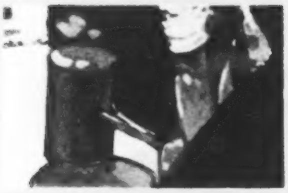
A1450-2


CREDIT BOWL
INDUSTRY 7
TRANS
BANKING 9
UTILITIES 1
RETAILING 20
HOUSING 2
FARMING 6
U.S. GOVT 93

56219 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST-WEST HGWY. SITE 200
BETHESDA, MD 20814

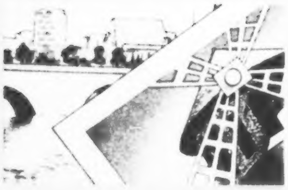
MORTGAGE
BANKING

Volume 44 No. 2
November 1983



32 Measuring Profitability

45 Controlling Risks



62 GNMA In Europe

Interview with Felix M. Beck, CMB 10

Second Mortgages: Coming of Age 20
Michael Rosser

Measuring Mortgage Bankers' Profitability 32
Ronald Rowland

Controlling Mortgage Pipeline Risk 45
John W. Labuszewski and James F. Meisner

Pension Funds: Targeting the Market 55
Thomas P. Napier, Jr.

GNMA Goes to Europe 62
Robert W. Karpe

About This Issue 5
People 69
Books 85
Mortgage Market Trends 93
Classified Advertisements 88
Advertisers Index 90

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart
Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Stephen Wagner

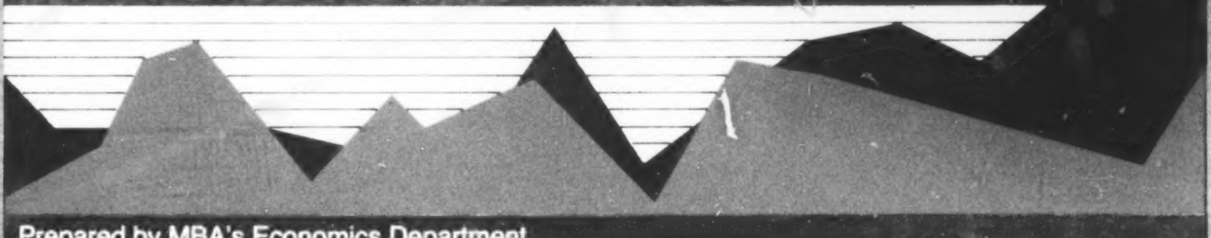
Published monthly since
1939 by the Mortgage
Bankers Association
of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1983 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS



Prepared by MBA's Economics Department

October 13, 1983

The current economic recovery is nearing its first anniversary, and it appears likely to continue in spite of the record high level of real interest rates. When this recovery began at an abnormally slow pace last winter, many analysts feared that it would give way to a disastrous third recession in three years. The recovery did strengthen, however, and in the second and third quarters this year real GNP grew at estimated annual rates of 9.6 and 7.0 percent, respectively. A 4 to 6 percent pace seems to be in store for the next several quarters.

This economic recovery resulted when business finally drew down inventories to replenishment levels at the end of 1982, inflation was pulled down to a 3.6 percent annual rate in early 1983, and the Federal Reserve responded with a more relaxed monetary policy during the last half of the year. After a lag, the reduced tax rates of the Reagan three-year tax cut have begun to strengthen consumer confidence and spending. Industrial production gained for nine consecutive months through August, before a modest correction in September. At the same time, the huge Federal budget deficit has augmented spending in certain areas of the economy, including the medical and defense sectors. These increasing components of aggregate demand have outweighed weakness in net exports and investment to yield the welcome growth in GNP. An important aspect of this recovery is its imbalance, with investment and net exports remaining weak while consumer spending surges. Investment remains weak due to excess unused capacity in many industries and high real interest rates that render many projects infeasible. Exports are weak and imports are strong due to the high value of the dollar on the foreign exchange markets, also directly attributable to high U.S. interest rates. This effect will continue to injure U.S. producers for foreign markets and domestic producers who compete against imports; both groups will lose market share, some of which never will be regained.

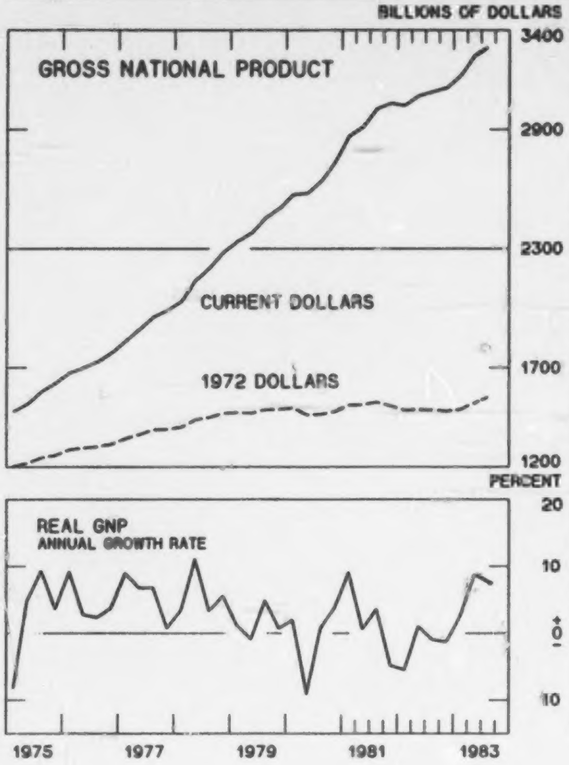
Because monetary policy has been the key to the recovery so far, the economic outlook must be based on an assumption about future monetary policy. Last spring the Federal Reserve became concerned that economic growth was proceeding too rapidly, risking renewed inflation. At the May meeting of the Open Market Committee, a slightly more restrictive monetary policy was adopted to slow economic growth. The result was a firming of interest rates during the summer. The just-released minutes of the August Open Market Committee meeting revealed a slight easing of credit policy. With inflation in September below a 3 percent annual rate, and with the money supply safely within the target range, it now seems that this relaxation of monetary policy will continue, at least until year-end.

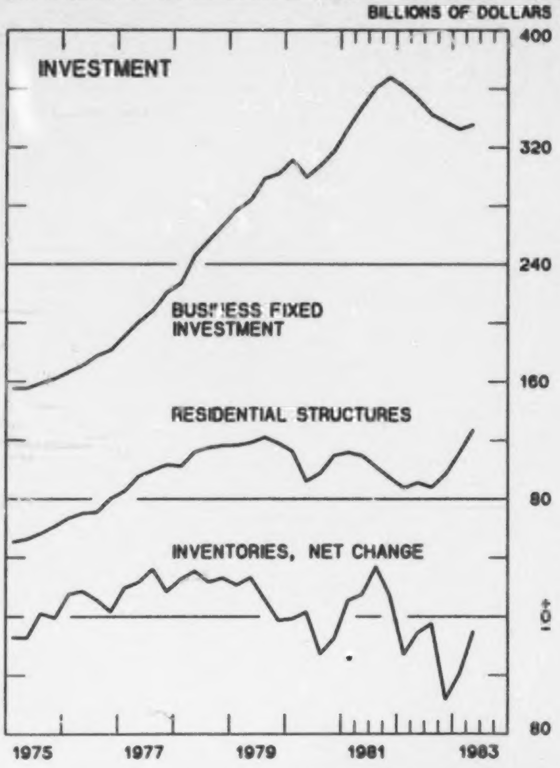
Although the economic recovery is proceeding, the huge Federal budget deficits continue to prevent a broad-based revival of all segments of the economy. The Federal government now spends one-third of national income, twice its share of 1950. Many spending programs are indexed to rise with inflation, while income tax revenues are scheduled to be indexed in 1985 so they no longer will rise in step with inflation. As Council of Economic Advisors Chairman Martin Feldstein told the MBA Board of Governors last month, Federal deficits are projected to stay in the $180-200 billion range for the next several years. This expansionary fiscal policy will exert upward pressure on interest rates and the price level, forcing the Federal Reserve to keep monetary policy more restrictive than would otherwise be necessary. Until the deficits are brought down to more reasonable levels, there is little hope for return to balanced and broad-based economic health for the economy. There is little prospect for near-term improvement in the deficit. Although the Congressional budget resolution calls for $73 billion in new tax revenue over the next three years, little action this session is expected. The House Ways and Means Committee is working on a bill that would raise only $5.7 billion, while the Senate Finance Committee cannot agree on a bill at all. With elections approaching in 1984, no one expects significant fiscal action next year.

The overall economic recovery will continue into 1984. The unemployment rate will continue to drift downward slowly, from its current 9.3 percent to 9 percent at year-end. In spite of huge Federal deficits, the expected easing of monetary policy in a low inflation environment will allow interest rates to fall. Short-term Treasury yields should approach 8 percent by year end, and mortgage yields could reach 12 percent. Whether these trends continue will depend on whether the deficits and the inflation rate force the Federal Reserve to restrict credit growth early in 1984.

Dr. Warren Matthews
Senior Economist

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY

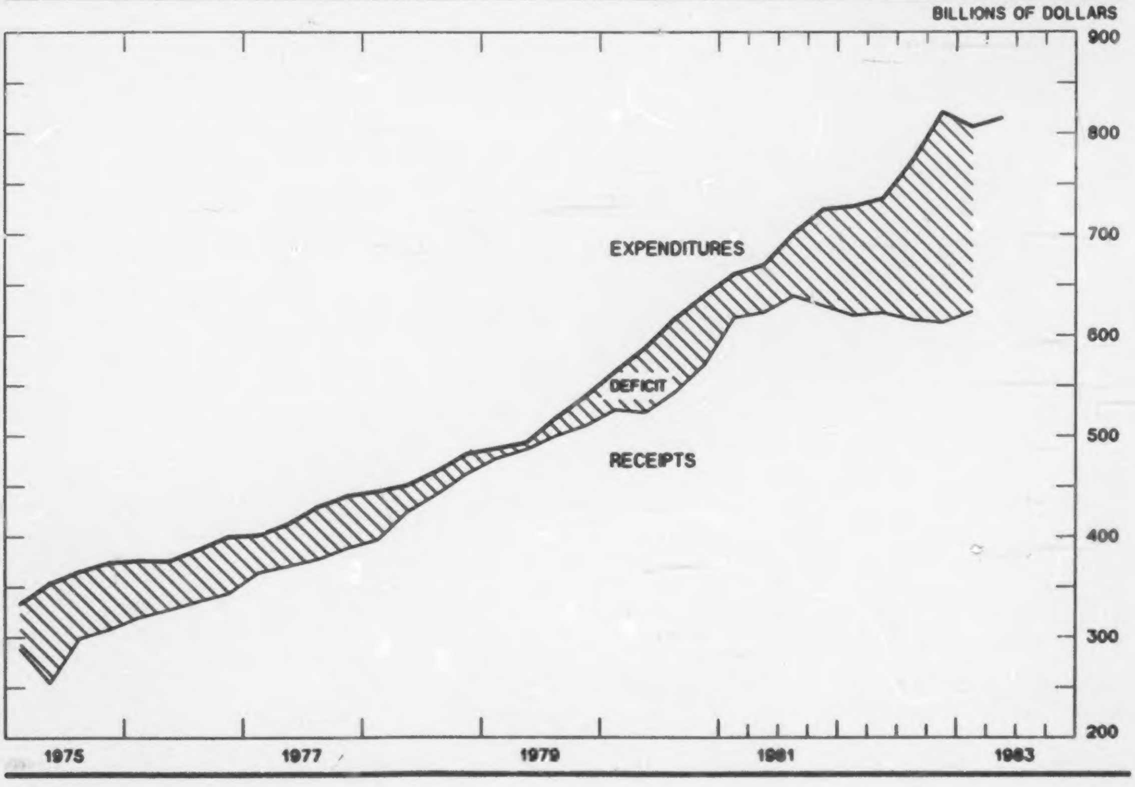




FEDERAL BUDGET

NIA BASIS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source: Federal Reserve Board

MORTGAGE MARKET TRENDS—NOVEMBER 1983

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
MAY	81	53	28	944	590	354	99	67	32	1,028	707	321
JUN	89	59	30	929	607	322	91	71	20	910	703	207
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	160	112	48	1,785	1,162	623
AUG	155p	101p	54p	1,666p	1,046p	620p	180p	123p	57p	1,935p	1,273p	662p
8 months												
1983	1,073	707	365				1,147	812	336			
1982	599	385	214				653	468	186			
1981	710	493	217				786	592	194			
1980	717	511	206				792	594	198			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
MAY	114,997	33,864	16,261	64,472
JUN	116,619	34,398	14,950	67,271
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	151,919	67,489	25,082	59,348
AUG	157,219p	68,611p	26,177p	62,431p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
MAY	169	37	259	8.2
JUN	192	34	253	8.3
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	285	5.3
JUL	260	53	291	5.8
AUG	281p	53p	297p	6.2p
8 months				
1983	1,874	435		
1982	1,296	259		
1981	1,724	319		
1980	1,909	372		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
APR	9	10	46	17	97	105	506	171	9	14	47	15	104	157	484	166
MAY	10	13	41	17	110	145	488	201	12	16	54	18	117	144	578	189
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	17	23	82	38	157	230	993	405
AUG	18p	21p	77p	39p	181p	203p	867	415p	22p	26p	93p	39p	192p	249p	1,035p	459p
8 months																
1983	107	121	583	263					113	144	633	260				
1982	64	58	332	132					67	91	373	122				
1981	77	94	352	187					76	116	416	175				
1980	71	105	342	200					76	118	406	193				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
APR	653	419	234	75	53	22
MAY	666	425	241	86	61	25
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	990	617	373	118	89	29
AUG	1,016p	633p	383p	153p	105p	48p
8 months						
1983				840	613	227
1982				629	458	190
1981				836	620	216
1980				1,021	723	337

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
MAY	16.19	16.50	16.55	15.89	16.11	16.88	17.80		16.000	15.26	15.22	13.62	12.220	13.42	97	164
JUN	16.73	16.75	16.80	15.40	15.56	17.62			16.375	15.89	15.92	14.30	12.310	13.96	81	159
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.35	12.72	14.38		13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
MAR	10,600	3,180	3,160	3,465	795	6,957	2,420	2,626	1,872	39	477	90	207	129	51	3,096	600	327	1,464	705
APR	9,755	2,900	3,100	3,071	684	6,721	2,420	2,582	1,674	45	469	50	177	172	70	2,535	400	341	1,225	569
MAY	9,689	3,080	3,193	2,899	517	6,626	2,450	2,541	1,597	38	479	190	163	111	15	2,614	470	489	1,191	464
JUN	11,792	3,440	4,041	3,826	485	8,153	2,850	3,258	1,995	50	687	180	271	223	13	2,932	390	512	1,608	422
JUL	10,874	2,940	3,427	3,661	846	7,361	2,330	2,922	2,049	60	501	70	206	177	48	2,862	390	299	1,435	738
AUG	10,108	2,710	3,601	3,251	546	7,412	2,500	2,909	1,958	45	543	40	280	210	13	2,423	440	412	1,083	488
SEP	10,807	2,620	3,858	3,855	474	7,911	2,460	3,130	2,276	45	563	20	295	226	22	2,393	200	433	1,353	407
OCT	10,954	3,080	3,529	3,764	581	7,637	2,480	2,817	2,296	44	781	340	216	210	15	2,646	370	496	1,258	522
NOV	13,450	4,460	4,026	4,458	506	10,067	3,930	3,148	2,935	54	702	220	337	107	38	2,751	380	541	1,416	414
DEC	19,578	5,850	6,443	5,724	1,561	13,941	5,390	4,778	3,705	68	1,025	50	605	297	73	4,482	280	1,060	1,722	1,420
1983																				
JAN	16,530	6,400	4,755	4,595	780	12,137	5,840	3,621	2,628	48	1,066	250	529	246	41	3,426	410	605	1,721	691
FEB	18,116	6,960	5,090	5,197	869	13,850	6,820	3,946	3,041	43	958	90	383	407	78	3,748	490	761	1,749	748
MAR	23,138	8,590	7,577	5,955	1,016	17,149	7,160	5,877	4,054	58	1,061	70	677	233	81	4,498	930	1,023	1,668	877
APR	21,117	7,520	7,942	4,903	756	15,983	6,630	6,292	3,005	56	1,269	340	656	223	50	3,865	550	990	1,675	650
MAY	23,354	7,760	8,348	6,427	819	17,229	6,860	6,903	3,409	57	1,148	130	549	411	58	4,977	770	896	2,607	704
JUN	30,493	9,180	10,936	8,851	1,526	21,917	7,840	8,683	5,302	92	2,537	980p	916	491	150	6,039	360	1,337	3,058	1,284
JUL	n.a.	n.a.	10,275	6,973	995	n.a.	n.a.	8,297	4,667	64	n.a.	n.a.	759	311	71	n.a.	n.a.	1,219	1,995	860

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
FEB	43,552	7,740	16,529	8,794	10,489	7,480	3,080	2,844	1,131	425
MAR	46,125	8,910	16,664	9,630	10,921	10,005	4,130	3,347	1,564	964
APR	48,376	9,090	17,186	11,381	10,719	10,329	4,650	3,390	1,579	710
MAY	49,695	9,390	17,362	12,345	10,598	9,690	4,180	3,350	1,627	533
JUN	49,270	9,240	17,327	12,543	10,160	8,765	3,220	3,597	1,648	300
JUL	49,726	9,610	16,951	13,436	9,729	9,171	3,410	3,537	1,679	545
AUG	50,855	10,410	17,748	13,192	9,505	9,646	3,750	3,847	1,615	434
SEP	51,994	11,350	18,241	13,108	9,295	11,139	5,290	3,888	1,466	495
OCT	54,730	13,610	19,328	12,512	9,280	13,394	7,040	4,024	1,620	710
NOV	60,452	16,540	20,785	13,457	9,670	16,226	8,060	5,017	1,819	1,330
DEC	65,375	19,940	21,548	14,267	9,620	17,913	7,780	6,082	1,991	1,304
1983										
JAN	66,607	20,160	22,945	13,802	9,700	15,343	6,660	5,555	1,928	1,200
FEB	74,301	24,060	25,677	14,847	9,717	17,367	6,950	7,271	2,076	1,070
MAR	80,178	26,500	28,846	14,982	9,850	23,050	8,410	10,291	3,051	1,298
APR	109,493	53,320	31,850	13,993	10,330	26,184	11,630	9,730	3,230	1,594
MAY	81,764	21,360	33,906	15,767	10,531	23,274	7,680	10,622	3,667	1,305
JUN	95,914p	34,140p	35,319	15,308	11,147	25,641	7,040	12,555	3,940	2,106
JUL	n.a.	n.a.	36,852	12,203	12,148	n.a.	n.a.	14,092	3,377	2,164

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

APPLICATIONS RECEIVED UNITS			INSURED							
			Total		FHA (203)		VA		Private	
Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
54	32	22	32	1,785	8	356	7	393	17	1,036
69	37	32	39	2,193	9	373	7	421	23	1,399
63	34	29	35	1,976	8	322	6	374	21	1,280
67	31	36	43	2,222	8	335	6	328	29	1,559
83	40	43	50	2,743	9	408	8	443	33	1,892
84	38	46	52	2,687	9	375	9	482	34	1,830
82	36	46	54	2,997	8	352	10	573	36	2,072
91	47	44	60	3,248	11	462	13	743	36	2,043
103	59	44	52	2,826	10	425	6	385	36	2,016
104	60	44	53	2,920	11	498	8	455	34	1,967
175	125	50	63	3,471	16	703	9	564	38	2,204
137	98	39	54	3,201	14	637	10	630	30	1,934
138	96	42	62	3,607	17	795	15	961	30	1,851
176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
182	102	80	115	6,863	38	1,854	20	1,224	57	3,785

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1981										
DEC	1,272	655			1,156	203	1,140	1,156	1,729	1,304
1982										
JAN	813	430	112	322	3,276	3,280	1,629	1,628	1,543	902
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	1,521
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,451	5,468	4,363

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
Construction				Land Loans				
Total	1-4 Units	5[9] Units	Non-1 res.		Total	1-4 Units	5[9] Units	Non-res.
180	70	40	70	70	7,480	770	2,910	3,800
130	30	30	70	30	8,070	650	3,630	3,800
170	50	40	80	60	7,530	540	3,340	3,650
130	70	10	50	40	6,420	630	2,000	3,790
360	70	80	210	60	7,820	560	2,330	4,930
130	50	30	50	40	8,150	660	3,230	4,620
180	60	40	80	70	7,660	590	2,250	4,820
160	50	30	80	40	8,900	580	2,250	6,070
150	60	20	70	50	4,420	690	1,570	2,160
170	70	30	70	30	6,180	980	2,730	2,470
170	90	30	50	30	5,540	480	2,340	2,720
180	110	20	50	20	5,370	590	2,170	2,610
230	100	40	90	50	5,680	880	1,940	2,860
150	80	30	40	60	7,160	800	3,720	2,640
220	90	40	90	50	9,470	980	4,450	4,040
230	110	20	100	40	14,050	1,570	9,320	3,160
200	80	10	100	50	na	1,150	na	2,520
430	220	50	160	200	6,440	890	3,820	1,730
600p	220p	90p	290p	160p	18,470p	950p	15,420p	2,100
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5[3] Units			
	Total[2]	1-4 Units	5[3] Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
SEP	2,250	1,900	30	380	2,610	2,180	530	420	1,230	50	40	10	380
OCT	2,110	1,550	270	420	2,440	1,870	480	350	1,040	170	0	170	400
NOV	1,890	1,520	40	330	1,820	1,430	400	290	740	40	10	30	350
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	2,030	1,560	90	520	1,830	1,390	410	340	640	100	60	40	340
FEB	2,140	1,760	120	290	1,820	1,380	470	280	630	120	90	30	320
MAR	3,180	2,420	90	600	2,790	2,110	600	340	1,170	80	60	20	600
APR	2,900	2,420	50	400	2,570	2,100	570	350	1,180	50	30	20	420
MAY	3,080	2,450	190	470	2,740	2,240	670	410	1,160	110	70	40	390
JUN	3,440	2,850	180	390	3,420	2,920	850	550	1,520	180	170	10	320
JUL	2,940	2,330	70	390	3,020	2,630	780	510	1,340	70	70	0	320
AUG	2,710	2,500	40	440	3,250	2,860	920	580	1,360	40	20	20	350
SEP	2,620	2,460	20	200	3,050	2,820	890	680	1,250	30	20	10	200
OCT	3,080	2,480	340	370	3,560	3,000	1,060	740	1,200	210	120	90	350
NOV	4,460	3,930	220	380	4,290	3,670	1,540	950	1,180	220	200	20	400
DEC	5,850	5,390	50	280	6,470	5,860	2,210	1,540	2,110	60	0	60	540
1983													
JAN	6,400	5,840	250	410	5,760	5,210	2,450	1,450	1,310	280	40	240	270
FEB	6,960	6,820	90	490	5,930	5,380	2,260	1,430	1,690	70	0	70	480
MAR	8,590	7,160	70	930	8,030	6,670	2,730	1,990	1,950	70	50	20	1,290
APR	8,490	7,640	340	520	7,520	6,630	2,540	1,640	2,450	340	0	340	550
MAY	8,720	7,500	220	930	7,760	6,860	2,910	1,800	2,150	130	20	110	770
JUNp	9,220	7,640	980	440	9,170	7,830	2,820	1,840	3,170	na	na	120	360

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.
1981														
SEP	1,820	1,610	90	120	2,330	1,530	120	680	5,260	470	810	5,690	870	1,520
OCT	2,340	1,770	170	400	2,560	1,850	200	510	5,190	280	840	5,280	510	1,130
NOV	1,920	1,320	180	420	4,250	1,490	190	2,570	3,720	390	640	4,170	610	1,150
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,940	2,290	240	410	3,290	2,430	140	720	6,370	1,000	690	5,380	1,260	880
FEB	3,080	2,210	90	780	3,620	2,470	60	1,090	6,220	810	710	4,550	1,130	930
MAR	4,130	3,010	120	1,000	2,850	2,560	140	150	7,730	480	700	5,610	710	930
APR	4,650	2,250	350	2,050	5,760	3,090	390	2,280	7,350	550	1,190	6,520	650	1,170
MAY	4,180	2,560	340	1,280	4,270	2,630	380	1,260	7,970	640	780	6,730	1,180	890
JUN	3,220	2,640	180	400	3,450	2,670	120	660	7,930	550	760	7,240	880	900
JUL	3,410	2,550	80	780	4,890	3,700	120	1,070	7,950	590	1,070	7,830	840	1,240
AUG	3,750	3,140	240	370	4,800	4,260	180	360	9,010	740	660	7,800	990	720
SEP	5,290	4,900	90	300	6,050	5,380	140	530	9,920	940	490	9,830	1,400	670
OCT	7,040	6,240	170	630	3,740	3,120	190	430	13,030	130	450	9,590	620	590
NOV	8,060	6,270	370	1,420	6,910	4,830	640	1,440	15,390	600	560	12,360	1,140	750
DEC	7,780	6,590	120	1,070	6,870	5,260	120	1,490	18,690	680	670	11,880	940	810
1983														
JAN	6,660	5,680	120	860	7,640	6,310	110	1,220	18,910	520	730	13,260	1,060	910
FEB	6,950	6,180	240	530	8,850	6,970	52	1,360	21,340	1,830	890	12,240	1,880	1,080
MAR	8,410	7,100	1,010	300	11,420	9,180	1,220	1,020	23,490	2,550	460	13,980	3,080	830
APR	na	6,300	na	1,270	na	10,010	na	1,620	20,220	na	860	16,710	na	1,050
MAY	7,680	7,070	0	610	9,230	8,320	100	810	20,430	500	630	16,210	1,280	810
JUNp	7,040	6,930	0	110	10,840	10,370	120	350	23,120	na	510	17,210	na	520

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5[3] Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5[3] Units	Non-Res.	1-4 Units	5[3] Units	Non-Res.
1981															
SEP	3,990	2,660	640	470	1,550	460	40	420	870	72	94	90	195,370	19,140	39,590
OCT	4,330	2,640	580	400	1,660	570	60	510	1,120	67	60	58	214,730	20,730	46,680
NOV	3,580	2,220	480	340	1,400	570	60	510	790	70	64	80	188,070	19,880	37,990
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	4,510	2,340	490	340	1,510	1,240	170	1,070	930	62	56	54	222,860	23,790	44,400
FEB	4,100	2,140	440	320	1,380	1,120	200	920	840	54	59	50	223,400	22,860	44,140
MAR	4,160	2,470	520	320	1,630	710	100	610	980	55	60	55	235,950	26,690	43,830
APR	4,670	2,380	510	350	1,520	910	110	800	1,380	67	45	46	233,690	24,910	46,580
MAY	4,560	2,470	530	370	1,570	1,210	110	1,100	880	64	64	54	239,060	26,040	45,020
JUN	3,360	2,400	630	410	1,360	530	130	400	430	70	81	76	244,630	25,090	44,340
JUL	5,150	2,690	640	490	1,560	1,220	140	1,080	1,240	74	46	54	235,360	22,700	43,030
AUG	5,000	2,910	710	450	1,750	1,240	140	1,100	850	65	50	48	258,320	25,020	44,360
SEP	6,140	3,000	740	490	1,770	2,380	140	2,240	760	76	42	50	258,260	25,560	44,620
OCT	6,160	3,170	750	640	1,780	2,020	140	1,880	970	59	29	42	269,470	26,150	46,350
NOV	6,650	3,620	1,000	740	1,880	2,120	290	1,830	910	65	42	51	280,360	26,490	47,050
DEC	6,320	4,400	1,370	960	2,070	1,130	160	970	790	52	52	55	292,440	26,300	49,670
1983															
JAN	8,260	4,830	1,680	1,150	2,000	2,590	330	2,260	840	56	34	58	298,680	30,890	47,110
FEB	9,070	5,260	1,700	1,160	2,400	2,620	340	2,280	1,190	46	42	52	274,470	42,570	48,710
MAR	11,390	6,290	2,040	1,480	2,770	4,070	360	3,710	1,030	47	47	56	280,270	39,210	50,680
APR	8,860	5,270	1,730	1,290	2,250	2,860	150	2,710	730	66	51	66	289,290	41,620	47,300
MAY	8,620	5,490	2,040	1,320	2,130	2,540	0	2,540	590	63	42	66	313,560	52,280	46,790
JUNp	9,090	5,660	1,940	1,270	2,450	2,810	250p	2,560	620	60	93p	46	307,000	49,400	42,150

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5[3] Units	Non-Res.	Land Loans	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	Land Loans
1981														
SEP	180	80	40	60	50	420	100	170	150	3,250	1,130	910	1,210	810
OCT	280	70	40	170	40	820	310	150	360	4,020	1,150	980	1,890	900
NOV	190	70	40	80	40	380	110	50	220	3,960	1,000	1,030	1,930	870
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	130	30	30	70	30	520	50	160	310	3,400	810	800	1,790	910
FEB	170	50	40	80	60	380	70	70	240	3,550	830	890	1,830	950
MAR	130	70	10	50	40	530	100	70	360	3,250	800	800	1,650	910
APR	360	70	80	210	60	550	90	180	280	3,810	820	960	2,030	1,010
MAY	130	50	30	50	40	690	80	200	410	3,740	780	960	2,000	970
JUN	180	60	40	80	70	810	80	380	350	4,290	840	1,090	2,360	1,020
JUL	160	50	30	80	40	510	60	320	130	4,210	840	960	2,410	970
AUG	150	60	20	70	50	620	100	250	270	3,480	900	920	1,660	1,000
SEP	170	70	30	70	30	370	90	160	120	3,840	960	950	1,930	1,000
OCT	170	90	30	50	30	200	90	90	20	4,620	1,150	1,180	2,290	920
NOV	180	110	20	50	20	440	120	270	50	3,880	1,110	890	1,880	950
DEC	230	100	40	90	50	500	130	110	260	4,050	1,180	900	1,970	1,030
1983														
JAN	150	80	30	40	60	300	140	30	130	3,510	990	830	1,690	920
FEB	220	90	40	90	50	320	120	80	120	4,410	1,240	860	2,310	1,000
MAR	230	110	20	100	40	500	190	200	110	3,940	1,260	610	2,070	890
APR	200	80	10	100	50	320	160	70	90	2,830	850	450	1,530	1,060
MAY	430	220	50	160	200	490	150	90	250	9,700	2,880	1,290	5,530	3,820
JUNp	600	220	90	290	160	510	160	80	270	10,030	2,720	1,470	5,840	3,780

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5[3] Units	Non-Res.	Total	1-4 Units	5[3] Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
SEP	970	80	290	600	3,670	920	1,210	1,540	10,770	2,460	4,380	3,930
OCT	1,200	130	160	910	7,030	920	1,330	4,780	11,510	2,320	5,260	3,930
NOV	1,050	120	520	410	6,120	750	1,770	3,600	10,870	1,680	5,270	3,920
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,050	180	1,400	470	8,070	650	3,620	3,800	11,070	1,130	5,770	4,170
FEB	690	70	190	430	7,530	540	3,340	3,650	11,230	1,180	5,360	4,690
MAR	920	190	170	560	6,420	630	2,000	3,790	11,930	1,250	6,610	4,070
APR	2,730	110	1,090	1,530	7,820	560	2,330	4,930	12,610	1,000	5,540	6,070
MAY	1,280	140	670	470	8,150	660	3,230	4,260	11,570	1,130	5,070	5,370
JUN	950	130	300	520	7,660	590	2,250	4,820	13,810	1,230	5,680	6,900
JUL	950	70	330	550	8,900	580	2,250	6,070	11,350	1,820	5,000	4,530
AUG	760	110	350	300	4,420	690	1,570	2,160	12,900	1,630	5,110	6,160
SEP	670	100	430	140	6,180	980	2,730	2,470	12,250	1,950	5,760	4,540
OCT	1,860	110	1,600	150	5,540	480	2,340	2,720	20,460	1,380	7,370	11,710
NOV	720	160	320	230	5,370	590	2,170	2,610	14,650	1,640	6,010	7,000
DEC	950	180	360	410	5,680	880	1,940	2,860	16,630	2,540	7,490	6,600
1983												
JAN	1,750	140	1,410	200	7,160	800	3,720	2,640	22,080	3,900	9,950	8,230
FEB	1,140	180	420	540	9,470	980	4,450	4,040	18,760	3,630	7,220	7,910
MAR	4,650	440	3,820	390	14,050	1,570	9,320	3,160	19,860	5,280	7,340	7,240
APR	3,840	180	2,950	710	na	1,150	na	2,520	17,760	3,390	8,200	6,170
MAY	1,080	180	610	290	6,440	890	3,820	1,730	26,300	4,720	8,740	12,840
JUNp	1,530	200	630	700	na	950	na	2,100	26,200	4,630	8,180	13,390

MORTGAGE BANKING

DECEMBER 1983

The Magazine of Real Estate Finance

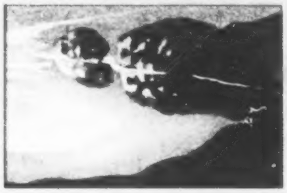
12/6/83
A6450-2

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

MORTGAGE BANKING

Volume 44 No. 3
December 1983

10 S&Ls in Transition



17 '84 Interest Rates

40 Commercial Condos

S&Ls in Transition: New Real Estate Routes 10
Christopher B. Leinberger

'84 Interest Rates: Higher but Stable 17
Daniel T. Van Dyke and Michael S. Salkin

The Move toward Mortgage Securitization 25
Michael A. Smilow

The ABCs of GPMs 33
Thomas J. Bak and Chester C. Foster

Commercial Condos: Threshold of Success 40
Morton L. Certilman

Mortgage Securities: Predicting Prepayments 47
Scott M. Pinkus and Evan B. Firestone

Professional Property Managers: The Changing Profile 56
Robert A. Crane, CPM®

The Last Word (Savings and Loan Stock Conversions) 63
Robert B. O'Brien, Jr.

About This Issue 5
People 71
Books 82
Classified Advertisements 84
Advertisers Index 87
Mortgage Market Trends 89

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Curtis Hanson

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1983 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

’84 INTEREST RATES: HIGHER BUT STABLE

%
-g.byron peck-83

Daniel T. Van Dyke
Michael S. Salkin

Interest rates in 1984 will be at a higher level than they were in 1983. However, interest rates were less volatile in 1983 than at any time since 1977. This pattern of rate stability is expected to continue through 1984 because of the economic and political conditions influencing money markets.

High interest rates will have a major impact on the real estate industry and will be felt in a slowing of industry growth rates. Nevertheless, levels of activity of starts, sales, and mortgage originations will remain substantial and will be above 1983 levels.

Interest rates and monetary policy

Interest rates in 1984 will be at a higher level than they were in 1983 because the underlying economic and political conditions in 1984 are expected to be less favorable toward lower interest rates. Nevertheless, there are economic and political realities that limit how high interest rates can rise.

Three fundamental influences underlying money market conditions are substantially different now from those that existed a year ago. These influences are a healthy economic recovery accompanied by a rising demand for credit, the Federal Reserve's posture toward monetary restraint, and the continuing fear of inflation. All three factors point to higher interest rates for 1984.

For now, the recovery is substantial and broadly based. After weak eco-

continued

ILLUSTRATION BY BYRON PECK/EGLY ASSOCIATES

nomic growth in the first quarter of 1983, second quarter economic growth was very solid. Real GNP advanced at a 9.7 percent annual rate. The third quarter continued the brisk growth with real GNP advancing 7.9 percent. We expect real GNP in the fourth quarter to be 6.6 percent above year-ago levels. With income and employment growing and consumer confidence strong, consumers will continue to spend through 1984. Consumer spending on durable goods began in the second quarter of 1983 and will continue for three to five quarters.

As a result, consumer demand for credit is growing and will continue at least through 1984. In addition, commercial and industrial demand for credit is expected to increase in 1984. Therefore, total private credit demand will be higher next year. Despite the modest decline in the Federal Government's deficit, total credit needs will be greater in 1984 than in 1983, keeping upward pressure on interest rates.

The second fundamental change in money market conditions is the Federal Reserve's policy to slow the growth in the money supply. This policy shift occurred because of the fears of renewed inflation. At the end of 1982 and in early 1983, the Fed supplied enough bank reserves to permit the money stock to grow at about a 14 percent annual rate. After abandoning their stated money supply targets, the Fed re-established a "monitoring range" for M1 growth with an upper limit of 9 percent, considerably below the rates at which money was supplied from mid-1982 to mid-1983. Indeed, from July through October, M1 growth was at a 1.7 percent annual rate. This slowing, along with increasing loan demand, will keep interest rates above their 1983 levels.

The third fundamental change in money market conditions is the expectation on the part of the general public that inflation will worsen. A year ago very good price news began to appear. It was followed early in 1983 with the 15 percent drop in crude oil prices that produced very favorable price news for several months. During this period, price expectations were revised downward. As we approach the end of 1983, there has been more than one year of very rapid money growth, and prices have undergone some acceleration from their lows in early 1983. Inflation expectations are at best neutral and at worst are being revised upward in contrast to a year ago. Hence interest rates, which carry an inflationary premium, will be prevented from falling to their early 1983 levels during the coming year.

Economic and political factors

Despite the factors suggesting interest rates will remain above the levels in 1983, there are three economic and political factors that suggest an upper limit on interest rate movements.

The first factor limiting interest rate increases concerns the situation in which debtor countries currently find themselves. Saddled with a mountain of external debt, and experiencing a weak market for their exports, many of these countries find it difficult to earn enough foreign exchange to service their debts. Higher U.S. interest rates aggravate the situation by increasing debt service payments that are, for the most part, tied to the prime lending rate in the U.S., or the Eurodollar rate.

It seems unlikely that the Fed would want to unnecessarily aggravate the position of the debtor countries when Federal Reserve Chairman Volcker has worked so hard this year to avert serious financial problems. Many domestic banks would experience a serious erosion of their capital if a number of debtor countries repudiated their debt. Consequently, the Fed can let rates move up only within a limited range without those undesirable consequences.

Second, unemployment in the U.S. is still politically too high. A substantial increase in interest rates would seriously hurt the interest-sensitive sectors of the economy such as housing, autos, and other durable goods manufacturing, aggravating the unemployment problem. This would create political pressures to impose more congressional control over the Fed regardless of who wins the White House.

The third and least important reason for a limit on higher interest rates is the presidential election in the United States in November 1984. Federal Reserve policies have enjoyed the support of the Reagan Administration for the past four years, hence we do not expect the Fed to pursue a policy of substantial tightening resulting in major interest rate increases through mid-1984 leading up to the election.

For these three reasons—the position of the debtor countries, the unemployment problem, and the Fed's political interest—the Fed's latitude for upward rate movements is limited through 1984.

Given the economic and political conditions that will constrain interest rate movements next year, we expect interest rates to be limited within a narrow range. The prime rate, for example, is expected to vary in the 11 to 13 percent range. On the upside, rates are unlikely to rise more than one or two percentage points from current rates and likewise, on the downside, rates are not likely to decline below 11 percent in 1984. The two percentage point range within which the prime interest rate is expected to remain next year is the narrowest since 1977, with the exception of 1983.

Housing and finance

Mortgage interest rates are subject to the same forces we discussed earlier. In

continued

Dr. Michael S. S[illegible]in is Vice President and Senior Economist with Bank of America's Economics-Policy Research Department, and Head of California Economic Research.

Dr. Daniel T. Van Dyke is Senior Economist and Head of US Economic Forecasting in the Economics and Policy Research Department, Bank of America World Headquarters San Francisco, California.

Table 1

	Mortgage Interest Rates[1]	Housing Starts[2] (000)	Existing House Sales[3] (000)	Mortgage Originations[4] ($ bill.)
1975	9.01%	1161	2452	$ 77.9
1976	8.99	1538	3002	112.7
1977	9.01	1987	3572	161.9
1978	9.59	2020	3863	185.0
1979	10.85	1745	3701	186.5
1980	12.85	1292	2881	133.7
1981	14.91	1084	2350	98.2
1982	15.31	1060	1947	95.0
Est 1983*	13.25	1708	2700	170.8
Est 1984*	13.95	1750	3100	225.6

***Estimates for 1983–84 are Bank of America forecasts.**

[1] *Source: FHLB Journal-Tables 5.1-Terms on Conventional Home Loans Made: National Averages for all Types of Lenders*

[2] *Source: U.S. Bureau of the Census, Construction Reports, Series C-20 and C-25.*

[3] *Source: National Association of Realtors—Existing Home Sales Annual Report.*

[4] *Source: Regional Data Associates Quarterly Report*

addition, there are other factors affecting changes in mortgage interest rates. Those factors are the level of new construction and resales and the type of financing used to consummate sales.

As shown in Table 1, housing starts, house resales, and mortgage originations all have been historically affected by changes in interest rates. The increases in interest rates in recent years have led to dramatic declines in levels of housing activity. From 1978 to 1979, for example, mortgage rates increased an average of only 126 basis points, starts declined 14 percent, and resales declined 5 percent. The use of seller financing kept resales from declining even further. From 1980 to 1981, interest rates increased an average of 207 basis points, and starts fell another 16 percent, with resales falling 18 percent. In addition, mortgage originations by institutional lenders declined 20 percent on a year-over-year basis.

During 1983, the housing industry recovered. The drop in interest rates triggered a 61 percent increase in starts, a 39 percent rise in sales, and an 80 percent increase in mortgage originations.

However, activity during the year first increased and then decreased as interest rates changed.

For the first six months of the year, starts and resales increased dramatically as interest rates declined. Starts increased approximately 80 percent, and sales increased 42 percent on a year-over-year basis. During the second half of the year, as interest rates increased, starts and sales slowed. Likewise, mortgage origination activity increased by 104 percent in the first half and is expected to increase much more slowly in the second half of the year.

As these data indicate, seemingly small changes in interest rates affect housing rather dramatically. As a general rule, "each percentage point drop in mortgage interest rates from 17 percent to 12 percent will result in an increase of at least 2.2 million qualified households."[1]

In 1984, continued improvement of the real estate industry depends almost entirely on the path of interest rates as consumer incomes grow, unemployment declines, and demographic demand remains favorable. Should mortgage interest rates stay at levels above their 1983 levels as we expect, then 1984 will be a period of slow growth for the industry.

As shown in Table 1, starts will increase 2.5 percent to a level of 1.75 million units, sales will increase 15 percent, and originations will increase 32 percent.

Alternative mortgage instruments

The rising interest rate environment in the second half of 1983 brought the increased use of mortgage instruments designed and used during the high rate environment of the early 1980s. When mortgage rates were out of reach for many buyers, lenders devised mortgage instruments that reduced buyers' monthly debt service burdens and in some cases shared interest rate risk. Graduated Payment Mortgages (GPMs), Growing Equity Mortgages (GEMs), and Adjustable Rate Mortgages (ARMs), gained in popularity.

These mortgages instruments were designed to reduce initial monthly payments below what they would have been on a comparable fixed-rate loan. Despite the advantages these loans offer—primarily lower initial monthly payments—they have distinct disadvantages. In the case of the GPM and GEM loans, monthly payments increase on a scheduled basis over time starting in the second year of the loan. In the case of the ARM, payments vary with changes in interest rates.

Given the disadvantages of these loans, buyers only agreed to them in order to qualify for home loans when interest rates were high. When interest rates dropped in early 1983, buyers quickly opted for traditional fixed-rate mortgages that became available.

As interest rates increased in the second half of the year, ARMs again became popular. In 1983, almost 50 percent of all loans closed were originated with an adjustable rate mortgage instrument, compared with 40 percent in 1982.

continued

---

[1] *Joseph Hu, Bond Market Research*, Housing Analysis, *Salomon Brothers Inc., June 9, 1982.*

Match Every Current Production Mortgage Goal

It will very soon (pending CFTC approval)* be possible to hedge "current production" mortgages more precisely than ever before. For a complete explanation of the 102.5 price cap, six-month delivery window and more, simply call or return the coupon below.

Hedge With The New GNMA II* Futures Contract

CALL 1-800-621-4641 (In Illinois 1-800-572-4217) OR WRITE FOR OUR FREE LITERATURE EXPLAINING THE CONCEPT AND DEFINING THE TERMS.

MAIL TO: Marketing Manager-Financial Instruments
Chicago Board of Trade
LaSalle at Jackson, Chicago, IL 60604

NAME/TITLE____________________

COMPANY____________________

ADDRESS____________________

CITY__________ STATE______ ZIP__________

12/83

Chicago Board of Trade

Changes in housing finance

As interest rates increased in the last half of 1983, changes in housing finance began to take place. The increase in interest rates caused a resurgence of financing schemes used by individual sellers and builders in the period of high interest rates from 1980 to 1982. More sellers again resorted to carrying their own financing to sell their houses as rising rates slowed the resale market. More builders resorted to offering subsidized interest rates to buyers in order to make their newly constructed houses more affordable.

Early in 1983, the use of seller financing declined by 50 percent from the levels and dollar volumes of 1982. The use of loan assumptions, combined with seller-carried financing, declined from approximately half of all sales to less than a quarter of all sales. In the second half of 1983, as the rise in interest rates made institutional interest rates unaffordable for many buyers, seller financing increased. While the use of seller finance did not reach the more than 50 percent share that occurred in 1982, the use of assumptions and seller-carried seconds is expected to increase to a 30 percent share of all sales transactions in 1984.

Outlook

The fundamental economic and political conditions influencing the money market will be considerably different in 1984 from that in 1983, leading to higher interest rates in 1984. However, those conditions suggest that interest rates will continue to be relatively stable.

Moreover, those fundamental conditions suggest that mortgage interest rates in 1984 will be at a slightly higher level on average but that they will be less volatile. Consequently, the level of activity in the real estate industry will remain high, even though the rate of growth will slow dramatically.

Because interest rates have moved up since early 1983, we have witnessed a return of seller financing and the use of alternative mortgage instruments.☐

"Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets."

THE MOVE TOWARD
MORTGAGE SECURITIZATION

Michael A. Smilow

The largest potential growth area of the fixed-income investment market is the mortgage-backed security—an investment that promises to link the mortgage markets and the capital markets in a way that will benefit homebuyers, mortgage originators, and institutional investors alike.

Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets. To spur continued growth of such vehicles, government and private industry have joined efforts in a drive to create a new environment for mortgage investments—through the securitization process. Packaging mortgage investments in security form enhances investment potential by moving away from the purchase and servicing of whole loans toward a more standardized mortgage-related security that can appeal to the broader investment community.

The move toward securitization of mortgage products not only demonstrates industry optimism for the potential of a streamlined and marketable security, but also reflects changes taking place in the primary mortgage market—changes that have demanded the creation of a more manageable, investor-oriented mortgage instrument.

The market for home mortgage debt continues to be the nation's most decentralized capital market. The mortgage credit system has undergone dramatic changes, while the impact of deregulation has meant an end to low-rate deposits and inexpensive local lending funds.

Coping with changes

Thrift institutions, which traditionally dominated the mortgage lending market, can no longer rely on local savings dollars to support local mortgage origination activity. In fact, savings and loan associations have seen their market share of origination volume decline from a high of 60 percent in 1977 to 41 percent in 1982. Mortgage bankers, including mortgage banking subsidiaries of savings institutions, on the other hand, are simultaneously increasing their share of mortgage originations.

With deregulation of savings rates and sharp changes in the interest rate environment, lending institutions are being forced away from the standard, fixed-rate, long-term, fully-amortized mortgage. Mortgage lenders recognize that this traditional mortgage instrument can be risky to originate for holding in their portfolios. The result has been that lenders are originating variable and adjustable rate mortgages that are more compatible with their new patterns of cost of funds and, when sold in the secondary market, offer a premium investment product.

The business of raising capital from diverse capital market outlets has become central to our industry's ability to meet the financing needs of the primary mortgage market. Securitization will further broaden market opportunities to generate capital by increasing the appeal of mortgage securities to non-traditional investors.

In essence, the process will enable investors to commit to mortgage-related investments without undertaking the administrative burdens of individual mortgages, with greater liquidity, and with even less risk than is associated with the underlying mortgage obligations themselves.

While mortgage-backed investments have, to date, successfully met the needs of certain investors, the market has the potential to expand significantly—by appealing to new, nontraditional institutional investors, such as pension funds, insurance companies, and other money managers.

Mortgage security status

Attracting these investors, however, requires a mortgage security that is structured to perform like other high value corporate securities—while offering the diversification and high credit quality benefits of home mortgages. Efforts to help mortgage security characteristics resemble corporate bond instruments are now underway by Federal Government decision-makers and private industry.

As part of the current effort to develop comprehensive legislation that would revamp the secondary mortgage market, three general areas of change are being considered: technical proposals to enhance the private secondary market; modifications of the Securities and Exchange Acts of 1933 and 1934; and passage of the Trusts for Investments in Mortgages (TIMs) concept.

These various technical and legal changes being considered are all part of an effort to expand participation by private issuers and broaden the appeal of such investments among investors. The purpose is to create a more liquid market for such investments to aid customers at both ends of the transactions.

The most notable proposal being reviewed is the TIMs concept to allow more active pool management and control of mortgage securities, both of which are currently restricted. The proposal directly addresses some inherent aspects of mortgage securities that have prevented their widespread acceptance by many institutional investors.

TIMs, in essence, is not a program, but a concept of regulatory and tax changes that would extend the flexibility and management under which such securities could be issued by private entities. The underlying goal of the proposal is to offer more flexibility between the contractual mortgage and a contractual mortgage-backed investment by permitting the issuer to manage assets more closely to meet specific investor preferences.

Continued expansion of the mortgage securities market has been hin-

continued

Chart 1

Securitized Single-Family Organizations

	Private Companies	vs	Federal Agencies
1976	$ 27M		$14,548M
1977	255M		21,393M
1978	888M		21,018M
1979	1,763M		28,576M
1980	994M		22,245M
1981	1,465M		14,613M
1982	2,439M		52,814M*
1983	(N/A)		56,000M*
	(first eight months)		

Source: Federal National Mortgage Association (FNMA) Research. Salomon Brothers, Inc.

**The figures for 1982 and 1983 include swap programs.*

dered by the inherent behavior of the underlying mortgage—the lack of call protection, inflexible interest, and unpredictable principal payments, resulting in difficulties in evaluating effective yields through various maturities within a specific pool. Under the TIMs concept, however, many—if not all—of these perceived negative aspects could be mitigated.

With call protection or reinvestment options, investors could be buffered from some of the unpredictable, typical mortgage behavior, including defaults, delinquencies, and prepayments. By breaking up the cash flow to less-frequent payments, issuers can assure investors of a more predictable and manageable investment. And by taking into consideration the application of more managed principal repayment rates, issuers can provide a dependable valuation of the security as designed to meet particular investor needs.

Of utmost importance is the potential for structuring of payment schedules within a total mortgage pool to provide sequential or serialized principal repayments, rather than the rigid pro-rata distributions now required for pass-through mortgage securities.

This suggests that investors can purchase a more predictable piece of the cash flow, with beginning and ending dates of principal repayments established to some degree rather than be limited rigidly to a pro-rata portion of the cash flow, for the entire life of the underlying mortgages.

The value of this aspect of the TIMs concept is reflected in the recent, spectacular introduction and acceptance of Collateralized Mortgage Obligations (CMOs) managed by the Federal Home Loan Mortgage Corporation with three different maturity patterns.

In addition, other mechanisms, such as unit investment trusts and mutual funds specializing in mortgage-backed security investments, are also emerging as viable mortgage investment alternatives for certain investor groups. Also, mortgage pass-through securities are being "bondized," particularly by homebuilders and home finance companies, to create more flexible investment packages. All of these developments suggest that there is a real market demand for "premium" tailored mortgage products. Market conditions are right for a securitized mortgage vehicle, provided such an investment can be structured to meet an investor's desired investment goals. And the private participants in the mortgage securities market have realigned to accept these new challenges.

Secondary market players

Until recently, the mortgage-backed securities market has been dominated by three Government and quasi-governmental Federal credit agencies—the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mae), and the Federal National Mortgage Association (Fannie Mae).

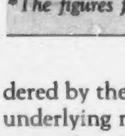
Now, however, private industry players are offering competitive mortgage investments and services designed to supplement Federal activities and to fill market niches not serviced by the Federal agency programs.

Today, a series of private conduit companies, including MGIC's Mortgage Marketing Corporation's "Maggie Mae," and similar efforts by such organizations as General Electric Credit Corporation and Merrill Lynch Mortgage Capital, Inc., are working to link the homebuyer with the capital markets investor. One of the newest major market programs is Residential Funding Corporation, a subsidiary of Norwest Bancorporation.

This burgeoning mortgage-backed securities market—while a relatively new industry—is evidenced by the dollar volume of originations being converted to mortgage security form. (See Chart 1.)

FNMA research reveals that private sector activity has increased from $27 million in 1976 to more than $2.4 bil-

continued



Michael A. Smilow is senior vice president of MGIC Investment Corporation, Milwaukee, Wisconsin. He is also president of the company's Commercial Loan Insurance Corporation and MGIC Mortgage Marketing Corporation subsidiaries. He joined the company in 1980. Earlier, Smilow was a deputy director of the office of State Agency and Bond Financed Programs for the Department of Housing and Urban Development (HUD), Washington, D.C.

Commercial Mortgage Loan Correspondent Originators Wanted.

BANKERS AND MORTGAGE EXECUTIVES:

INCREASE FEE INCOME WITH THE HOWARD TAYLOR & COMPANY CO-BROKERAGE PLAN.

Here's how the Howard Taylor & Company Co-Brokerage Plan can expand your fee income from commercial and income property lending:

1. Talk to us. We'll help you design and place the right real property financing package for your customer's needs.

2. Let our experienced staff provide everything you need: Analysis, Packaging, Investor Marketing, Site Inspection and Closing... all at no cost to you.

3. Relax. We take the guesswork, time and effort out of complicated financial negotiations between borrower and lender.

Our reputation is built on a commitment to discover successful financing solutions to investment objectives... we're proud of that.

For more information, call:

HT Howard Taylor & Company

A Concern For Your Profitability

Mortgage Brokers/Investment Bankers
16 E. Main Street
Rochester, NY 14614
(716) 232-1880
NASD/SIPC

lion in 1982. In comparison, the Federal agency programs, which reached a peak of $28 billion in 1979, had already exceeded $56 billion during the first eight months of 1983. This record volume is due, in part, to the introduction of swap programs to exchange mortgages for mortgage pass-through securities issued by FHLMC and FNMA.

Recent industry patterns and innovations in the secondary market lend credibility to the argument that mortgage-backed securities do have a place in investment portfolios. A well-designed mortgage product offers an intermediate term investment that has the safety and risk spread of a custom-tailored investment. Mortgage-related investments can be packaged in a number of ways and backed by a variety of short- or long-term loans and housing types to meet a particular investor's return-on-investment goals.

At MGIC, we believe securitization will determine the course of secondary mortgage market activity in the months and years ahead. As a result, we—like other private mortgage insurers—are working to develop customized mortgage pool and special hazard insurance programs to provide necessary protection and financial guarantees to reduce investment risk. Such programs will not only enhance the reliability of mortgage cash flow but also give unique and superior value to the home mortgage itself, as collateral for fixed-income debt.

Today, there is a merging of talents as mortgage originators and servicers, private mortgage insurers, and investment marketing organizations develop industry partnerships to provide innovative and well-managed mortgage investments. If current legislative proposals are successful, mortgage market securitization promises to accelerate and expand the role of the home mortgage loan as the basis for an efficient and high-quality bulk investment—a premium investment on par with other corporate securities that are suitable and attractive to a broad range of fixed-income investors, both institutional and individual. ☐

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

November 11, 1983

Debate on the importance of the Federal budget deficit continues within the Administration, among the Presidential candidates, and throughout the public at large. The last surplus in the Federal budget was achieved in 1969. Since then, the total Federal debt has increased from about $100 billion to more than $1 trillion, just about in step with GNP growth. The more important shifts in the Federal budget during the past 20 years are in the mix of spending categories, increasing indexation of certain spending programs, and, more recently, the Reagan initiative to reverse the growth of the public sector. These shifts have much to do with the current deficit problem and the potential for a solution.

In the early 1960s, national defense spending accounted for 45 percent of Federal outlays. Human resources spending took less than 30 percent, and net interest payments on the debt stood below 7 percent of all Federal outlays. By the end of that decade, military and social spending had increased sharply, with the defense share down slightly and the social spending share up considerably. This trend continued throughout the 1970s, and by 1979 defense spending had declined to 24 percent of the budget, while human resource programs exceeded 50 percent. Due to the growing deficits and higher interest rates of that period, net interest was near 9 percent of outlays by 1979.

There was no major tax increase to pay for these expanding programs. Instead, inflation and the progressive income tax system combined automatically to increase Federal tax revenues through bracket creep. This effect was accelerated by the entry or reentry into the labor force of many married women, creating two-income households taxed at much higher marginal rates. A shortfall still existed in the budget, and borrowing made up the difference. The Federal deficit approached $60 billion in 1981, then a record-high level. The budget gap advanced to $110 billion in the following fiscal year and has been put at $195 billion for the fiscal year just ended. As a share of GNP, probably the best measure of its burden on the economy, the deficit has grown from about 2 percent ten years ago to 7 percent for fiscal 1983. A look at the relative contribution of the spending and revenue components of the deficit will help put the problem in perspective.

The Reagan tax cut passed in 1980 has reduced marginal tax rates by 25 percent. The more favorable treatment of real estate under the Accelerated Cost Recovery System also has reduced tax revenue somewhat during the past two years. Although these tax cuts have had an impact on Federal revenues, the chief cause of growing deficits has been expansion of Federal spending.

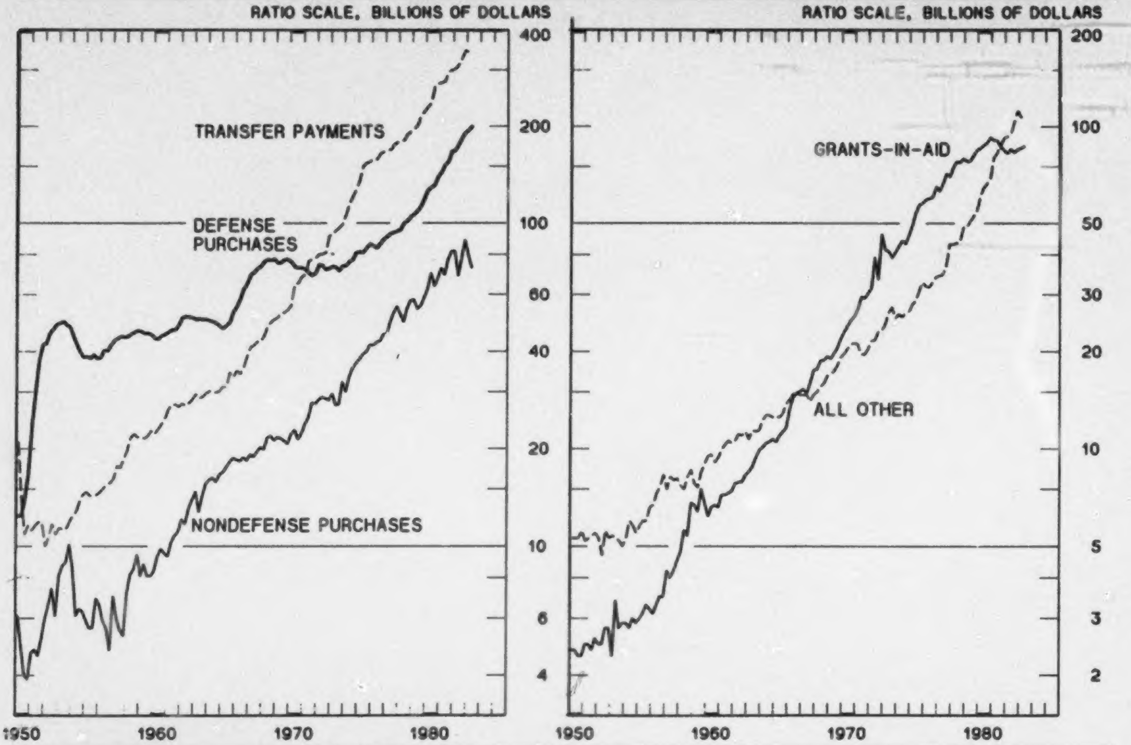
During the past ten years, Federal tax revenue as a percent of GNP has remained relatively level, at 18.5 percent. Spending during the same period has increased from 19.6 percent of GNP to 25.6 percent, a gain of almost one-third. Controlling the growth of Federal spending is difficult, because many programs have been indexed to inflation since the mid-1970s or are entitlement programs open to all who qualify. Congress has dealt with some of these problems, especially on the Social Security issue.

More progress is needed, however, to complete the job of putting Federal finances back on a sound footing. Only by lowering the deficit near 2 to 3 percent of GNP can we hope to have interest rates down to levels permitting sustained economic growth throughout the decade.

Dr. Warren Matthews
Senior Economist

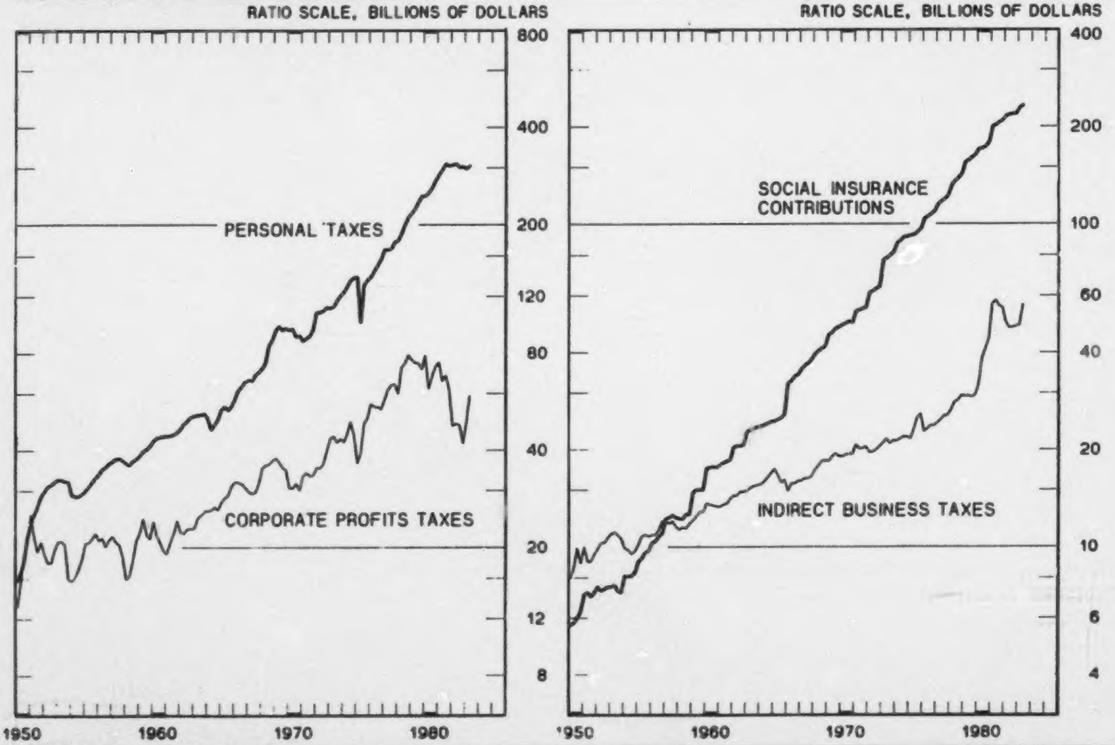
FEDERAL GOVERNMENT EXPENDITURES

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



FEDERAL GOVERNMENT RECEIPTS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—DECEMBER 1983

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
JUN	89	59	30	929	607	322	91	71	20	910	703	207
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,909	1,255	654
SEP	148p	89p	59p	1,504p	962p	542p	154p	108p	46p	1,652p	1,150p	502p
9 months												
1983	1,219	792	426				1,300	919	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			
1980	875	612	263				930	704	226			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
JUN	116,619	34,398	14,950	67,271
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,350	68,783	26,025	62,542
SEP	156,284p	68,161p	24,562p	63,561p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
JUN	192	34	253	8.3
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	52	289	5.9
AUG	280	51	298	6.4
SEP	242p	52p	302p	6.2p
9 months				
1983	2,115	484		
1982	1,462	297		
1981	1,909	345		
1980	2,202	416		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
MAY	10	13	41	17	110	145	488	201	12	16	54	18	117	144	578	189
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	20	26	93	38	175	257	1,032	445
SEP	20p	22p	70p	37p	185p	188p	737p	394p	15p	24p	80p	34p	137p	229p	908p	378p
9 months																
1983	127	143	653	298					127	168	713	294				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				
1980	87	125	390	226					94	147	462	227				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
MAY	666	425	241	86	61	25
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,032p	637p	395p	133p	100p	33p
9 months						
1983				976	716	260
1982				714	522	211
1981				945	703	243
1980				1,025	697	329

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
JUN	16.73	16.75	16.80	15.40	15.56	17.62			16.375	15.89	15.92	14.30	12.310	13.96	81	159
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.57p	12.86p	14.50		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
APR	9,755	2,900	3,100	3,071	684	6,721	2,420	2,582	1,674	45	469	50	177	172	70	2,535	400	341	1,225	569
MAY	9,689	3,080	3,193	2,899	517	6,626	2,450	2,541	1,597	38	479	190	163	111	15	2,614	470	489	1,191	464
JUN	11,792	3,440	4,041	3,826	485	8,153	2,850	3,258	1,995	50	687	180	271	223	13	2,932	390	512	1,608	422
JUL	10,874	2,940	3,427	3,661	846	7,361	2,330	2,922	2,049	60	501	70	206	177	48	2,862	390	299	1,435	738
AUG	10,108	2,710	3,601	3,251	546	7,412	2,500	2,909	1,958	45	543	40	280	210	13	2,423	440	412	1,083	488
SEP	10,807	2,620	3,858	3,855	474	7,911	2,460	3,130	2,276	45	563	20	295	226	22	2,393	200	433	1,353	407
OCT	10,954	3,030	3,529	3,764	581	7,637	2,480	2,817	2,296	44	781	340	216	210	15	2,646	370	496	1,258	522
NOV	13,450	4,460	4,026	4,458	506	10,067	3,930	3,148	2,935	54	702	220	337	107	38	2,751	380	541	1,416	414
DEC	19,578	5,850	6,443	5,724	1,561	13,941	5,390	4,778	3,705	68	1,025	50	605	297	73	4,482	280	1,060	1,722	1,420
1983																				
JAN	16,530	6,400	4,755	4,595	780	12,137	5,840	3,621	2,628	48	1,066	250	529	246	41	3,426	410	605	1,721	691
FEB	18,116	6,960	5,090	5,197	869	13,850	6,820	3,946	3,041	43	958	90	383	407	78	3,748	490	761	1,749	748
MAR	23,138	8,590	7,577	5,955	1,016	17,149	7,160	5,877	4,054	58	1,061	70	677	233	81	4,498	930	1,023	1,668	877
APR	21,117	7,520	7,942	4,903	756	15,983	6,630	6,292	3,005	56	1,269	340	656	223	50	3,865	550	990	1,675	650
MAY	23,354	7,760	8,348	6,427	819	17,229	6,860	6,903	3,409	57	1,148	130	549	411	58	4,977	770	896	2,607	704
JUN	30,493	9,180	10,936	8,851	1,526	21,917	7,840	8,683	5,302	92	2,537	980p	916	491	150	6,039	360	1,337	3,058	1,284
JUL	n.a.	n.a.	10,275	6,973	995	n.a.	n.a.	8,297	4,667	64	n.a.	n.a.	759	311	71	n.a.	n.a.	1,219	1,995	860
AUG	n.a.	n.a.	11,291	9,646	1,879	n.a.	n.a.	9,197	6,253	57	n.a.	n.a.	740	485	242	n.a.	n.a.	1,354	2,908	1,580

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
MAR	46,125	8,910	16,664	9,630	10,921	10,005	4,130	3,347	1,564	964
APR	48,376	9,090	17,186	11,381	10,719	10,329	4,650	3,390	1,579	710
MAY	49,695	9,390	17,362	12,345	10,598	9,690	4,180	3,350	1,627	533
JUN	49,270	9,240	17,327	12,543	10,160	8,765	3,220	3,597	1,648	300
JUL	49,726	9,610	16,951	13,436	9,729	9,171	3,410	3,537	1,679	545
AUG	50,855	10,410	17,748	13,192	9,505	9,646	3,750	3,847	1,615	434
SEP	51,994	11,350	18,241	13,108	9,295	11,139	5,290	3,888	1,466	495
OCT	54,730	13,610	19,328	12,512	9,280	13,394	7,040	4,024	1,620	710
NOV	60,452	16,540	20,785	13,457	9,670	16,226	8,060	5,017	1,819	1,330
DEC	65,375	19,940	21,548	14,267	9,620	17,913	7,780	6,082	1,991	1,304
1983										
JAN	66,607	20,160	22,945	13,802	9,700	15,343	6,660	5,555	1,928	1,200
FEB	74,301	24,060	25,677	14,847	9,717	17,367	6,950	7,271	2,076	1,070
MAR	80,178	26,500	28,846	14,982	9,850	23,050	8,410	10,291	3,051	1,298
APR	109,493	53,320	31,850	13,993	10,330	26,184	11,630	9,730	3,230	1,594
MAY	81,764	21,560	33,906	15,767	10,531	23,274	7,630	10,622	3,667	1,305
JUN	95,914p	34,140p	35,319	15,308	11,147	25,641	7,040	12,555	3,940	2,106
JUL	n.a.	n.a.	36,852	12,203	12,148	n.a.	n.a.	14,092	3,377	2,164
AUG	n.a.	n.a.	38,590	13,276	14,120	n.a.	n.a.	12,668	3,556	1,645

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

APPLICATIONS RECEIVED UNITS			INSURED							
			Total		FHA (203)		VA		Private	
Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
69	37	32	39	2,193	9	373	7	421	23	1,399
63	34	29	35	1,976	8	322	6	374	21	1,280
67	31	36	43	2,222	8	335	6	328	29	1,559
83	40	43	50	2,743	9	408	8	443	33	1,892
84	38	46	52	2,687	9	375	9	482	34	1,830
82	36	46	54	2,997	8	352	10	573	36	2,072
91	47	44	60	3,248	11	462	13	743	36	2,043
103	59	44	52	2,826	10	425	6	385	36	2,016
104	60	44	53	2,920	11	498	8	455	34	1,967
175	125	50	63	3,471	16	703	9	564	38	2,204
137	98	39	54	3,201	14	637	10	630	30	1,934
138	96	42	62	3,607	17	795	15	961	30	1,851
176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
205	106	99	139	8,665	31	1,641	35	2,193	73	4,831

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
JAN	813	430	112	322	3,276	3,280	1,629	1,628	1,543	902
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	1,521
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,318	6,367	1,621	1,585	7,976	5,943

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
Construction				Land Loans				
Total	1-4 Units	5+ Units	Non-1 res.		Total	1-4 Units	5+ Units	Non-res.
130	30	30	70	30	8,070	650	3,630	3,800
170	50	40	80	60	7,530	540	3,340	3,650
130	70	10	50	40	6,420	630	2,000	3,790
360	70	80	210	60	7,820	560	2,330	4,930
130	50	30	50	40	8,150	660	3,230	4,620
180	60	40	80	70	7,660	590	2,250	4,820
160	50	30	80	40	8,900	580	2,250	6,070
150	60	20	70	50	4,420	690	1,570	2,160
170	70	30	70	30	6,180	980	2,730	2,470
170	90	30	50	30	5,540	480	2,340	2,720
180	110	20	50	20	5,370	590	2,170	2,610
230	100	40	90	50	5,680	880	1,940	2,860
150	80	30	40	60	7,160	800	3,720	2,640
220	90	40	90	50	9,470	980	4,450	4,040
230	110	20	100	40	14,050	1,570	9,320	3,160
200	80	10	100	50	na	1,150	na	2,520
430	220	50	160	200	6,440	890	3,820	1,730
600p	220p	90p	290p	160p	18,470p	950p	15,420p	2,100
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

---

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

A6450-2 1/18/84

MORTGAGE BANKING

JANUARY 1984

The Magazine of Real Estate Finance

Special Report On The FHA Rate

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

MORTGAGE BANKING

Volume 44 No. 4
January 1984

12 Economic Outlook
20 Builder Bonds
36 AAA Ratings

1984 Economic Outlook 12
Dr. Thomas R. Harter

Life Without An FHA Ceiling 18
Cheryl D. Patton

Combining Resources for Builder Bonds 20
Kenneth G. Lore

Multifamily Mortgages: On the Block 28
Audrey Hinton

New Frontiers for AAA Ratings 36
Niel F. Moser and Paul M. Holzem

Spotlight on Resyndication Potential 42
Jeb Brooks and Mark S. Thompson

MBA Honors New CMBs 55

Index of 1983 *Mortgage Banking* Articles 57
Timothy S. Wolf

About This Issue 5
People 73
Books 80
Advertisers Index 87
Mortgage Market Trends 89

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Greg Fitzhugh

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MULTIFAMILY MORTGAGES:

ON THE BLOCK

Audrey Hinton

In March 1982 when the U.S. Department of Housing and Urban Development (HUD) resumed its program of selling multifamily mortgages the Department owned, very few people were aware of the tremendous opportunities this program would soon bring to the mortgage banking industry, investment banking firms, and to the owners of the projects securing the mortgages sold.[1] Most thought only of the objectives such a sale would meet for HUD and the Government in general. HUD Secretary Samuel R. Pierce, Jr. described these objectives when he said, "The sale is consistent with the Administration's efforts to raise funds for the Treasury [and will] generate cash to offset our borrowing needs." The Department also knew that selling mortgages would help HUD meet the Administration's objective of reducing expenditures. Selling some of the 2,026 multifamily mortgages owned by HUD would mean a savings in HUD's administrative workload and costs because staff would no longer need to service the mortgages sold.[2]

ILLUSTRATION BY STEPHEN WAGNER

By November 15, 1983, HUD had held five mortgage sales, sold 339 mortgages with principal balances totalling $545.3 million, and generated proceeds of $340.0 million. All of the sales, except one, were conducted for HUD by the Government National Mortgage Association (GNMA) acting through its agent, the Federal National Mortgage Association (FNMA).[3]

The high level of participation in HUD's mortgage sales from private industry indicates that the program is serving far more than the interests of HUD and the Federal Government. The success is encouraging as HUD makes plans for the March 1984 sale and future sales.

Why participate?

Why are mortgagees, investors, and project owners participating in HUD's mortgage sales program? Because HUD offers high-quality Government-guaranteed securities that will provide a stable, long-term return at yields usually well above those available on long-term Treasury securities.

Mortgagee purchasers of mortgages in HUD sales unanimously agree that the mortgage sales program offers some excellent opportunities not only for investors but also for mortgage banking companies with efficient multifamily servicing operations. Mortgagees can profit through the fees earned from servicing loans they buy and then sell, often using conventional mortgage pass-through certificates. Borrowing costs are reduced through the use of the replacement reserve funds and tax and insurance escrows as compensating balances.

Mortgagees who purchase and hold loans on behalf of project owners who cannot afford to buy the loan at the auction can benefit through negotiating the sale of the mortgage to the owner at a later date and by arranging the financing. Mortgagees also earn income through underwriting and rating mortgages for investors.

Thirty-five percent of the mortgages sold have been purchased by project owners. They have taken advantage of the opportunity to pay off their debts

continued

to HUD at a discount and refinance their projects. Owners who plan to convert their projects to condominiums or sell their projects in the near future have shown interest in purchasing the mortgages on their projects. They gain control over the debt and no longer need HUD's permission to sell, convert, or put secondary financing on the project. The bonus comes when they pocket the difference between what they sell the project for and the amount they owe on the mortgage.

Bidders have told HUD how impressed they are with the quality and variety of the mortgages HUD offers. Most of the mortgages are on stable, well-seasoned projects with a lengthy operating history.

Interest rates range from 4 to 16.5 percent; unpaid principal balances are as low as $50,000 and have been as high as $30.0 million. Mortgages are secured by rental and cooperative properties for the elderly and for families, as well as by nursing homes, hospitals, and mobile home parks. For investors looking for loans that may mature early and increase their yields, there are mortgages amortizing ahead of schedule, mortgages with call provisions providing for an acceleration of the principal balance well in advance of the scheduled maturity date, and mortgages backed by projects that will convert to condominiums soon. There are mortgages with anywhere from a few months to 40 years remaining to maturity and mortgages on projects with Section 8 assistance that owners generally do not prepay before the expiration of the Section 8 contract.

Audrey Hinton is a special assistant in the Office of Multifamily Financing and Preservation, U.S. Department of Housing and Urban Development, Washington, D.C. She develops the policy and procedures for HUD's multifamily mortgage sales program and coordinates the auctions. Prior to her position at HUD, she was a multifamily mortgage underwriter with James W. Rouse & Company, Columbia, Maryland.

Most important, all of the mortgages are current[4] and can be purchased by HUD-approved mortgagees with HUD insurance, making them an even safer investment. In summary, HUD offers such an assortment of mortgages that there are mortgages for sale that will meet the needs of many investors.

Finally, mortgagees, investors, and project owners participate in HUD sales because HUD sells its mortgages at a reasonable price. Though HUD does not disclose the yields or minimum acceptable selling price for each mortgage, it is noteworthy that HUD accepts higher yields, i.e., lower prices, than GNMA does at its mortgage auctions. Average prices accepted have ranged from a low of 50.8 percent of the unpaid principal balance to a high of 80 percent in the January 1983 sale.[5]

When reviewing the average prices given on the Sales Results chart, readers should keep in mind that these are average prices for the assortment of mortgages sold. Therefore, no valid conclusions can be drawn about the prices purchasers paid for individual mortgages or on the yields to investors. Those interested may request sales results from HUD and compute the yields themselves.

HUD has made several changes in the mortgage sales program. In fact, after each sale HUD contacts participants and asks for their comments on how the sale went for them, the impact of HUD's procedures on them, and what improvements HUD can make in the program. It is important that the sales meet their needs and expectations, for without their participation, the sales would not be a success.

Here are some of the improvements HUD has made as a result of discussions with program participants.

Insurance benefits formula

Perhaps the most important improvement is in the formula for calculating insurance benefits. When HUD began the program, it used a formula designed to prevent purchasers from intentionally selecting mortgages that would go into default, purchasing them at substantial discounts, and then assigning them to HUD for close to the unpaid principal balance. The formula, in effect, offered mortgage insurance on the unpaid principal balance of the mortgage at the time of the claim but not in an amount in excess of the price paid by the original purchaser. HUD thought the formula would attract investors looking for a steady stream of income and not a "windfall" profit.

What happened, however, is that it discouraged investors from participating. Mortgages had to be purchased at very low prices so that investors could obtain a market yield on the loan in the event of an early claim for insurance benefits. Knowing that HUD would not accept such low prices, mortgagees did not bid to the extent HUD had hoped they would.

To encourage participation, for the March 1983 sale, HUD changed the formula for computation of insurance benefits to conform more closely with the GNMA participation in insurance proceeds formula. In effect, the revised HUD formula provides that HUD and the investor share in the insurance benefits if any assignment results from a default that occurs within 60 months after the closing of the mortgage sale.[6]

The revised formula brought increased investor participation to HUD's sales. In July 1982, only 39 percent of the mortgages sold were purchased by HUD-approved mortgagees. In March 1983, the percentage increased to 51 percent. In July 1983, 80 percent of the mortgages sold were purchased by mortgagees.

Fund remittance changes

HUD has made changes in the method of remitting funds for the purchase of mortgages and shortened the timeframe for the transfer of escrows and unapplied funds.

HUD now permits purchasers to remit funds for the purchase of more than one mortgage on a single wire transfer. Previously, separate wire transfers were required for each loan purchased. Now purchasers closing the sale of several mortgages on the same day no longer have to wait hours for HUD to confirm Treasury's receipt of the individual transfers.

Mortgagee purchasers have stressed how important it is that they receive principal and interest payments and escrow funds from HUD in a more timely manner. Late principal and interest payments have to be advanced by them for pooled mortgages they service. In addition, if taxes come due soon after settlement, the late transfer of the escrow funds means the mortgagee has to advance the funds. Both of these events can add to the mortgagees' costs and decrease the price they pay for mortgages.

HUD responded to this by a procedure that credits the amount HUD holds in cash in the tax and replacement reserve escrows to the amounts due from the purchaser at closing. Principal and interest and other funds collected after the sale are held as unapplied funds and sent to the loan purchaser 30–60 days following sales closing.

Mortgagee loan files

HUD now makes it easier for mortgagees to set up their loan files. First of all, HUD begins the reconciliation of loan accounts immediately after acceptance of bids, permitting earlier preparation of settlement information and resolution of escrow problems. Project owners are advised immediately after the auction and again on the day of sales closing of the name of the new mortgagee and where to send future mortgage payments. This cuts down on the delay mortgagees once had in receiving the mortgagor's checks.

HUD now provides at closing a copy of the most recent mortgage billing and a copy of the last paid tax receipt, bill, or tax data sheet. Finally, within 60 days of closing, HUD also provides mortgagee purchasers with its billing and tax files on each mortgage.

Mortgage data accuracy

Last, but not least, HUD has made major improvements in providing potential bidders with accurate data on the mortgages offered. Fiscal data on each mortgage are entered into a computer that checks for obvious errors and inconsistencies in the data. Notices are sent to potential bidders advising them of corrections to errors in the published data. The Department also provides bidders with Project Summary Data Sheets with information on the mortgage, the project, and the owner. Finally, on the day of the auction, HUD calls bidders and advises them of any erroneous data published on the mortgages on which they bid and allows them to modify or withdraw their bids.

Key auction procedures

The terms and procedures for each sale are published in an auction announcement that is mailed four to six weeks before each sale to HUD-approved mortgagees, owners of the projects securing mortgages offered, and other interested parties. Though the provisions are subject to change from sale to sale, this will highlight the provisions currently in effect.

Mortgages offered and available information

HUD offers assigned and purchase money mortgages that are no more than one monthly payment delinquent. No mortgages receiving interest reduction payments are offered, and no projects receive rent supplement or rental assistance payments, though some may have Section 8 assistance.

HUD makes available for inspection at its headquarters legal documents, project servicing files, and mortgage payment history files on each mortgage offered. Bidders also may inspect project files in the HUD field office having jurisdiction over the project. Project Summary Data Sheets also are mailed to prospective bidders upon request.

Eligible bidders and purchasers

HUD-approved mortgagees and HUD-approved owners of the projects backing the mortgages offered are the only eligible bidders. Mortgagees may bid on any mortgage offered, but owners may bid only on the mortgage secured by their project.

Any successful bidder may assign its contract to purchase a mortgage once prior to closing, but the original party submitting the successful bid will remain liable on the purchase contract to HUD. Project owners may take an assignment or satisfaction of their mortgages. HUD-approved mortgagees may purchase mortgages with HUD insurance.[7] Mortgages sold to project owners and other individuals or businesses are not eligible for insurance.

Bids

Bids, expressed as a percentage of the unpaid principal balance of the mortgage, are submitted to FNMA by telephone between specified hours on the day of the sale.

HUD makes awards to the highest bidders whose bids meet or exceed an undisclosed minimum selling price for each mortgage. In establishing the selling price, HUD considers such factors as the mortgage interest rate; presence of subsidy; type of project; remaining

continued

Chart 1

Sales Results

	Date of Sale Dollars in Millions					
	March 1982	July 1982	January 1983	March 1983	July 1983	TOTAL
No. of Mortgages Offered	117	321	26	333	343	1,140
Principal Balance Offered	$145.3	$442.8	$46.5	$ 465.0	$493.5	$1,593.1
No. of Mortgages Sold	52	107	2	72	106	339
To Project Owners	0	65	2	35	21	123
To HUD-Approved Mortgagees	52	42	0	37	85	216
With Insurance	52	27	0	31	83	193
Without Insurance	0	80	2	41	23	146
Principal Balance Sold	$ 76.1	$159.1	$ 2.1	$ 96.8	$211.2	545.3
Net Proceeds	$ 39.0	$ 92.3	$ 1.8	$ 67.9	$138.6	339.6
Average Price	50.8%	57.2%	80.0%	68.1%	65.4%	64.3%

term; and any unique characteristics of the project or mortgage that may affect prepayment. Neither the type of bidder nor a mortgagee's decision to purchase with or without mortgage insurance is considered when determining if a bid is acceptable.

After evaluating each bid, HUD sends each bidder a formal Notice of Acceptance or Declination of Bid that is the binding purchase contract. HUD also publishes and makes available a list showing the names of all bidders and the bid amounts for all mortgages offered in the auction.

Post-auction sale

The day following the auction, FNMA operators telephone the highest unsuccessful bidder on each mortgage not sold and give that bidder a chance to buy the mortgage at a price set by HUD. The price always exceeds the minimum acceptable selling price set for the regular auction. The price is not negotiable, and the offer is available only on the afternoon following the regular auction.

Sales closings

Successful bidders are required to close on the purchase of the loans by the date set by HUD in the auction announcement. Closings are conducted either by HUD or a private law firm under contract with HUD and, at the purchaser's option, may be held in the contractor's office, HUD offices, or through the mail.

Funds for purchasing mortgages must be paid through the Federal Reserve wire transfer system. Within 60 days of closing, HUD notifies the purchaser of any adjustments to the amounts credited for cash escrows on the day of closing and remits any unapplied funds, excess escrow funds, and reserve funds held in the form of securities, passbooks, instruments, and so on, to the purchaser.

At closing, the purchaser will receive the original note, documents evidencing HUD's ownership of the mortgage, and any other documents HUD has that are necessary for a mortgagee to maintain its responsibilities under the terms of the mortgage and/or applicable HUD regulations.

Sales impact on project

If a mortgage is purchased with insurance, the Regulatory Agreement between HUD and the mortgagor remains in effect. If there is a Section 8 Housing Assistance Payment (HAP) contract on the project, it will stay in effect until its expiration, whether the mortgage is sold with or without HUD insurance. If a mortgage is sold with insurance, the insurance pursuant to Section 207 of the National Housing Act will have no impact upon the rules governing determination of maximum permissible rents at the project.

continued

MORTGAGE EXECUTIVE MANAGER

Join our newly formed mortgage banking subsidiary in a key position. We are a subsidiary of WFS Financial Corporation, the holding company of Wheat, First Securities, a leading investment banking and regional brokerage securities firm. We will be rapidly expanding into major mortgage markets in Virginia, Georgia, Florida and North Carolina.

You'll build your regional business as you develop marketing strategies and new business programs to originate first and second mortgage loans. Extensive credit evaluation and loan services support from our Richmond, Virginia headquarters will permit you to maximize your efforts in identifying and attracting clients.

If you have at least three years of experience in first and second mortgage residential loans or have demonstrated your effectiveness in attracting mortgage business, send your resume to Brenda Watts, V.P. Employment, 707 East Main Street, Richmond, Virginia 23219.

Wheat
First Securities
MEMBER NEW YORK STOCK EXCHANGE
An Equal Opportunity Employer M/F/H

$100,000,000

International
Mortgage Company

has sold Government National Mortgage Association ("GNMA") mortgage loan servicing approximating the principal amount of $100,000,000 to

Bankers Funding Corporation

We initiated this transaction and represented International Mortgage Company during negotiations.

Donaldson, Lufkin & Jenrette

December 2, 1983

Future sales

HUD anticipates holding sales of multifamily mortgages through Fiscal Year 1985. The next sale is planned for March 1984. With nearly 1700 multifamily mortgages remaining in HUD's inventory of assigned and purchase money mortgages, it can continue to offer high-quality, current mortgages for sale. Consideration also is being given to holding sales of the 29,000 single-family mortgages HUD holds, but no firm decisions have been made thus far.

If you would like to receive copies of the auction announcements or further information on HUD's mortgage sales program, please write to HUD, Project Mortgage Sales Program, Room 6153, 451 Seventh Street, S.W., Washington, D.C. 20410. ☐

---

[1] *HUD held its first sale of multifamily mortgages in January 1973. Sixty-four mortgages with interest rates from 3.5 to 6 percent were sold at prices computed to yield a return of 8 to 8.5 percent.*

[2] *HUD acquires its mortgages in two ways: (1) a HUD-approved mortgagee may assign an insured mortgage to HUD when the owner defaults under the terms of the mortgage; or (2) HUD may take back a purchase money mortgage in conjunction with the sale of a formerly HUD-owned project.*

[3] *The January 1983 auction was a sealed bid sale conducted by HUD without GNMA as its agent.*

[4] *A mortgage is considered current if it is no more than one monthly payment delinquent.*

[5] *This average is so high because the minimum acceptable bid in this sale was 80 percent of the unpaid balance.*

[6] *HUD's participating share in the insurance benefits payable equals that percentage of the unpaid principal balance amount of the insured mortgage note remaining after deducting from 100 percent: 1) the percentage of the unpaid principal balance represented by the mortgage purchase price, and 2) an insurance increment that represents a percentage of the unpaid principal balance amount of the mortgage on the day of default.*

[7] *Mortgages are insured pursuant to Section 207 of the National Housing Act, and benefits are paid in cash.*

Mortgage Market Trends

Prepared by MBA's Economics Department

December 13, 1983

Government and business are preparing for the new year, and debate is focused on Federal budget deficits and their implications for economic growth. As the current recovery enters its second year, most measures of economic performance show this recovery to be typical of post-war business cycles. The November unemployment rate dropped to 8.4 percent, real Gross National Product (GNP) is growing at a 6 percent annual rate so far this year, and inflation is down to the 3 to 5 percent range. One important exception among the economic indicators is the level of interest rates, which remains about double the level of the average one-year old recovery, both in the short- and long-term maturities. As a result of continuing high interest rates, investment is relatively weak in this business cycle, except in the area of residential construction.

In spite of the lack of Congressional action so far this year to correct the stream of projected deficits "as far as the eye can see," there are some signs that meaningful fiscal reform may be achieved early in 1984. The Senate Finance Committee is conducting hearings this week on the persistent Federal deficit, and MBA testified today. In addition there are reports that the Administration is considering a package of spending cuts and tax increases for submission to Congress in January. If these developments lead to action in 1984 to reduce deficits, then there is a reasonable hope that interest rates can decline, sustaining the recovery.

On the spending side, a scaling back of the requested 22 percent growth in defense spending for FY 1985 has been suggested by Administration spokesmen. On the tax front, it now appears that a contingency tax increase keyed to certain spending cuts desired by the White House will be considered by the President. At long last we appear to be approaching the point where all the major players in the economic policy debate agree that the level of Federal deficits now projected for the next few years cannot be permitted to occur.

In reviewing the current problem of the deficit, it is useful to analyze the trends that led to the current imbalance. During the past 20 years, Federal spending has grown at an average annual rate of 11 percent, while the GNP has been growing at less than 9 percent per year. The result is that since 1963 Federal spending has increased from 17 percent of GNP to 25 percent in the last fiscal year. Due to certain spending reforms enacted in the tax "enhancement" bill of 1982, this percentage is projected to remain constant through 1989.

While Federal spending has been growing faster than the economy over the past 20 years, the revenue side of the ledger has not shown the same expansion. In FY 1983, the Federal Government collected 18.6 percent of GNP as tax revenue. Due to the scheduled indexing of the personal income tax brackets to the consumer price index, beginning in 1985, Federal revenues will remain just below 19 percent of GNP throughout the remainder of this decade.

The difference between the 25 percent of GNP devoted to Government spending and the 19 percent collected as tax revenue is the Federal deficit—almost 6 percent of GNP. Under current tax and spending plans, the deficit will remain 5 to 6 percent of GNP throughout this decade. At this rate Federal borrowing will absorb all of personal saving, leaving only business saving, non-Federal Government saving, and foreign inflows of capital to finance the investment requirements of business and households.

Aside from the adverse effect this outcome would have for interest rates, its effect on the accumulation of national debt is worthy of special consideration.

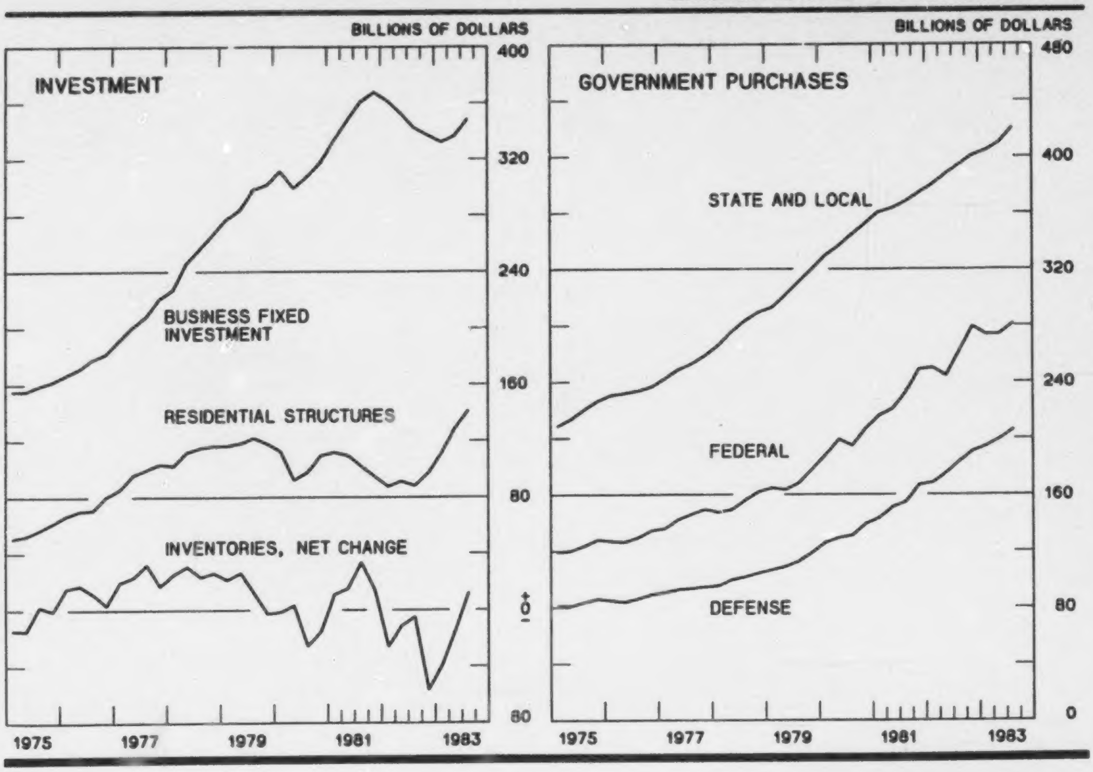
The stream of annual deficits near $200 billion for the rest of the decade would more than double the national debt. At only an 8 percent average Government interest rate, three percentage points lower than current rates, the increase in the annual interest bill just from the 1984-1989 deficits would exceed $100 billion. The central danger in this scenario is that political pressure to inflate the economy to handle the Government debt would eventually become overwhelming. The result would be a return to rapid inflation requiring either a reduced standard of living or another dose of monetary austerity similar to 1980-1983.

It is hoped that our political leaders will recognize the danger signals and put our fiscal house in order. The correction is certain to occur—the only option is whether it is done relatively soon in an orderly manner or is delayed until events force action.

Dr. Warren Matthews
Senior Economist

SELECTED COMPONENTS OF GNP

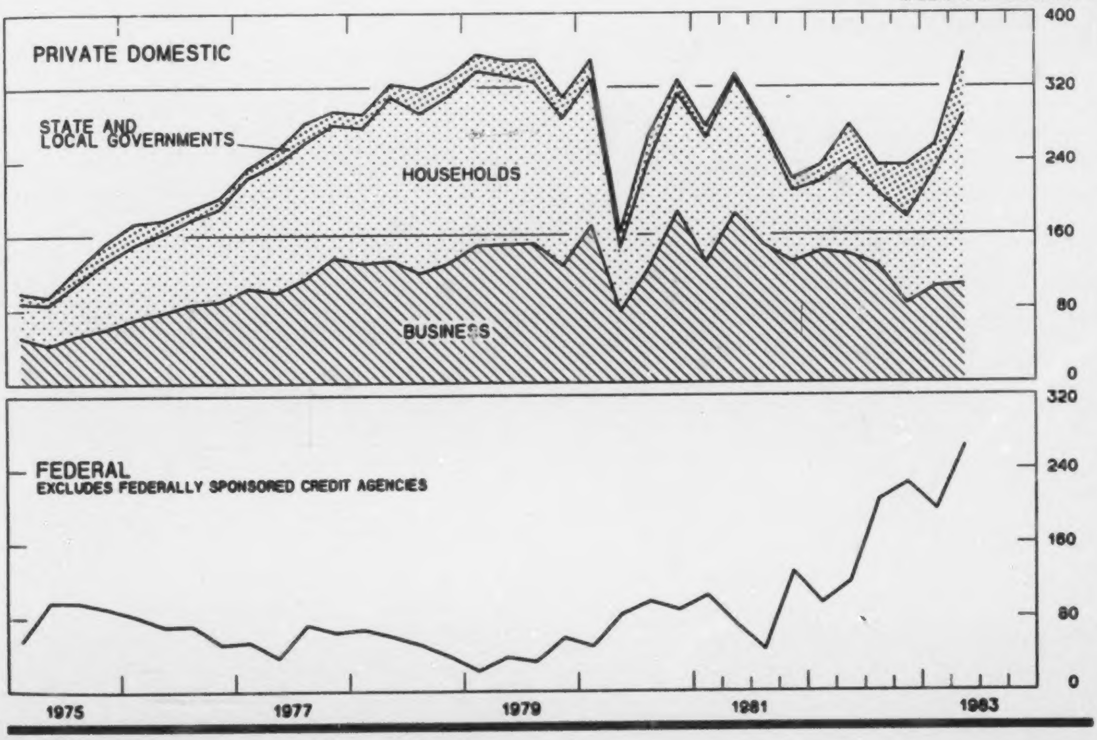
SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



NET FUNDS RAISED

MAJOR NONFINANCIAL SECTORS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—JANUARY 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,904	1,245	659
SEP	148	90	58	1,506	967	539	155	109	46	1,672	1,160	512
OCT	135p	87p	48p	1,565p	1,022p	543p	155p	100p	55p	1,608p	1,079p	529p
10 months												
1983	1,354	880	473				1,456	1,020	437			
1982	800	507	292				872	613	259			
1981	858	568	278				957	712	245			
1980	987	695	292				1,082	815	267			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,649	68,404	26,614	62,631
OCT	150,830p	66,022p	24,931p	59,877p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	51	288	5.9
AUG	280	51	296	6.5
SEP	240	50	303	6.5
OCT	223p	54p	302p	5.5p
10 months				
1983	2,336	535		
1982	1,630	339		
1981	2,077	374		
1980	2,484	464		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	22	25	92	38	190	246	1,024	444
SEP	18	21	73	36	176	177	765	388	15	23	84	34	133	220	947	372
OCT	15p	21p	67p	32p	154p	205p	813p	393p	16p	23p	84p	33p	153p	194p	909p	352p
10 months																
1983	140	163	723	329					145	189	800	327				
1982	91	100	435	174					94	126	485	164				
1981	97	118	421	222					98	148	494	212				
1980	99	157	467	266					105	182	542	255				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,028	635	393	133	99	34
OCT	1,033p	627p	406p	152p	109p	43p
10 months						
1983				1,128	824	304
1982				816	593	242
1981				1,062	782	281
1980				1,256	890	366

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields				U.S. Gov't.				
	FHA New[3]	Conventional New	Conventional Existing	Conventional New	Conventional Existing			ARM (5 yr Treas)	Conv		Aaa Utility New Issue	10-yr	26-wk	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
1982																
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	5.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.95	13.95	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
MAY	8,699	2,090	3,193	2,899	517	5,836	1,660	2,541	1,597	38	439	150	163	111	15	2,424	280	489	1,191	464
JUN	10,882	2,530	4,041	3,826	485	7,463	2,160	3,258	1,995	50	637	130	271	223	13	2,782	240	512	1,608	422
JUL	10,164	2,230	3,427	3,661	846	6,981	1,950	2,922	2,049	60	481	50	206	177	48	2,702	230	299	1,435	738
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,[illegible]53	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,531	4,670	10,331	8,115	1,415	17,015	3,860	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
APR	48,376	8,220	17,186	11,381	10,719	10,329	3,630	3,390	1,579	710
MAY	49,695	8,260	17,362	12,345	10,598	9,690	3,380	3,350	1,627	533
JUN	49,270	8,100	17,327	12,543	10,160	8,765	2,560	3,597	1,648	300
JUL	49,726	8,500	16,951	13,436	9,729	9,171	2,700	3,537	1,679	545
AUG	50,855	9,050	17,748	13,192	9,505	9,646	3,050	3,847	1,615	434
SEP	51,994	9,800	18,241	13,108	9,295	11,139	4,240	3,888	1,466	495
OCT	54,730	12,570	19,328	12,512	9,280	13,394	6,740	4,024	1,620	710
NOV	60,452	15,660	20,785	13,457	9,670	16,226	7,290	5,017	1,819	1,330
DEC	65,375	16,320	21,548	14,267	9,620	17,913	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,846	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	78,074	14,050	38,562	13,495	11,967	20,644	4,900	10,895	3,454	1,395

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
APR	63	34	29	35	1,976	8	322	6	374	21	1,280
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	2,181	1,018	3,183	3,283	2,263	1,555	6,169	4,200

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
FEB	110	40	20	50	70	340	60	50	230
MAR	90	50	10	30	50	480	90	60	330
APR	240	50	50	140	70	490	90	140	260
MAY	90	30	20	40	50	620	80	160	380
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	130	50	20	60	50	360	100	30	230

---

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
OCT	2,110	1,550	270	420	2,440	1,870	480	350	1,040	170	0	170	400
NOV	1,890	1,520	40	330	1,820	1,430	400	290	740	40	10	30	350
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	1,650	1,110	180	400	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,300	170	230	1,400	1,030	370	200	460	140	70	70	230
MAR	2,240	1,680	90	310	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,810	60	290	1,940	1,550	450	250	850	80	20	60	310
MAY	2,420	1,870	310	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,530	2,100	140	380	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,070	1,800	40	250	2,230	1,950	610	370	970	50	50	0	230
AUG	2,290	1,870	70	400	2,450	2,130	720	420	990	70	10	60	250
SEP	2,000	1,880	30	130	2,280	2,090	700	490	900	50	10	40	140
OCT	2,460	1,910	600	280	2,850	2,290	840	550	900	320	90	230	240
NOV	3,220	2,800	190	230	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,140	3,940	120	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,450	4,180	790	290	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,040	210	300	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,320	5,420	70	570	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,870	5,020	700	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,470	5,330	620	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,130	5,780	980	410	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,390	5,030	20	360	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,360	4,390	230	810	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,100	3,480	130	550	4,670	3,860	1,300	890	1,670	220	60	160	590

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981														
OCT	2,340	1,770	170	400	2,560	1,850	200	510	5,190	280	840	5,280	510	1,130
NOV	1,920	1,320	180	420	4,250	1,490	190	2,570	3,720	390	640	4,170	610	1,150
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,011	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,900	4,790	0	110	6,340	4,810	870	660	12,860	410	730	9,280	1,250	790

Notes: Data 1982 and 1983 are revised.

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[1]			SERVICING VOLUME		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981															
OCT	4,330	2,640	580	400	1,660	570	60	510	1,120	67	60	58	214,730	20,730	46,630
NOV	3,580	2,220	480	340	1,400	570	60	510	790	70	64	80	188,070	19,880	37,990
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230-	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	11,080	6,760	1,890	1,370	3,500	3,430	0	3,430	890	47	33	47	284,440	41,310	33,780

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1981														
OCT	280	70	40	170	40	820	310	150	360	4,020	1,150	980	1,890	900
NOV	190	70	40	80	40	380	110	50	220	3,960	1,000	1,030	1,930	870
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	130	50	20	60	50	360	100	30	230	2,460	710	340	1,410	630

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
OCT	1,200	130	160	910	7,030	920	1,330	4,780	11,510	2,320	5,260	3,930
NOV	1,050	120	520	410	6,120	750	1,770	3,600	10,870	1,680	5,270	3,920
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,990	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,040	80	690	270	4,830	650	2,120	2,060	44,000	3,180	12,460	28,360

MORTGAGE BANKING

FEBRUARY 1984

The Magazine of Real Estate Finance

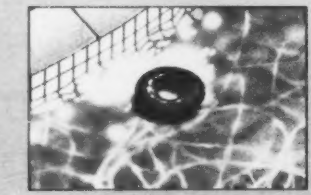
A6450-2 2/7/84

REE FHA
RATE

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

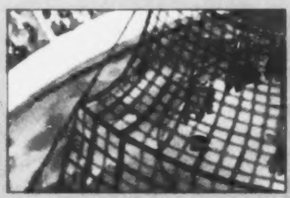
MORTGAGE BANKING

Volume 44 No. 5
February 1984



11 Mortgage Pools

44 Lending Packages



54 GNMA Pass-Throughs

Probing the Depth of Mortgage Pools 11
Kenneth R. Scott and James E. Monsma

Enjoying Equity with Second Mortgage Loans 25
David A. Olson

Guarding the Lender's Interest 36
Richard G. Clarke, CPCU

New Lending Packages: The Money Store 44
Anthony R. Medici

Adjusting to the Free FHA Rate 50
Gregory D. Luetscher

Hedging GNMA Pass-Throughs 54
Glenn Picou

The Last Word 65
(Economic News: Taking Exception)
Daniel A. Blumberg

About This Issue 5
People 77
Books 85
Advertisers Index 87
Mortgage Market Trends 89

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Editor, Stephanie A. Smart

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

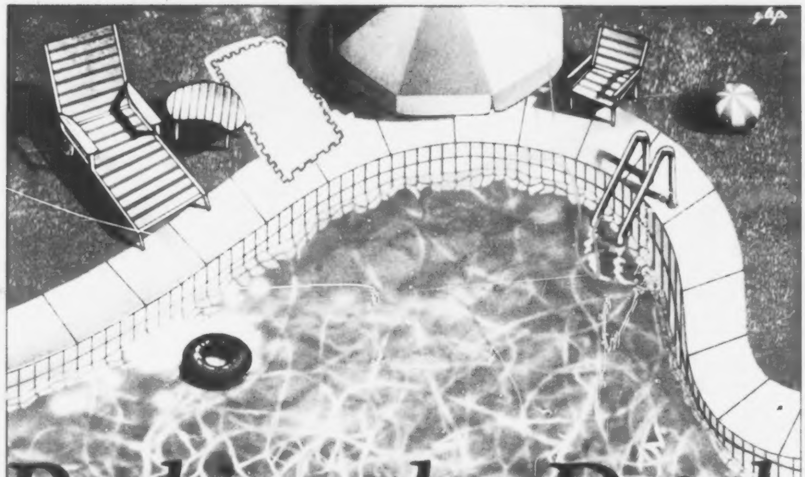
Cover Illustration by: Greg Hargreaves

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.



Probing the Depth of Mortgage Pools

Using Federal Housing Administration (FHA) mortgage mortality experience to evaluate Government National Mortgage Association (GNMA) Mortgage-Backed Securities (MBSs) is now the most widely accepted and applied method. That this method is reasonably accurate for evaluating 30-year GNMA pools is unquestioned. But what about FNMA and Federal Home Loan Mortgage Corporation (FHLMC) pools? Or the new 15-year pools and private mortgage pools? The FHA experience method has some inherent limitations that make it unsuitable for evaluating these other types of pools.

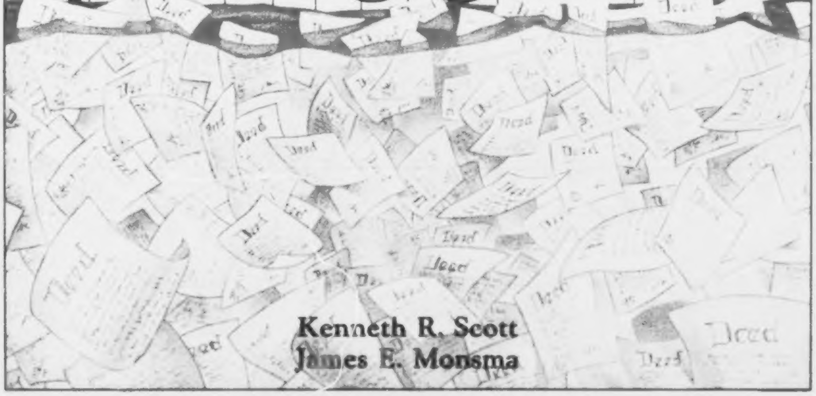
Perhaps the most important limitation is the FHA statistics themselves. All the mortgages are 30-year FHA or Veterans Administration (VA) mortgages, whereas Federal National Mortgage Association (FNMA) and FHLMC pools are predominantly conventional mortgages. The prepayment pattern inherent in FHA mortgages does not necessarily apply to other types of mortgages. FHA mortgages are assumable—conventional mortgages may not be. FHA mortgages are subject to maximum amount limitations—conventional mortgages are not.

Now there is a new method of pool evaluation that is superior to anything else currently available. The new method, called Constant Percent Prepayment (CPP), is similar to proprietary methods used by a number of financial institutions.

Here is a simple overview of the method:

Imagine a pool of $1,000,000 of nonamortizing mortgages bearing interest at the rate of 12 percent. In the absence of any prepayment, the mortgage holder would receive interest at the rate of 1 percent per month or $10,000.

continued



Kenneth R. Scott
James E. Monsma

There are many ways that prepayment might occur. Let us examine one possible example. Suppose 10 percent of the pool prepaid in the first month, 5 percent of the remaining pool prepaid in the second month, and 3 percent of the pool prepaid in the third month.

The first observation is that the pool, in this case, prepaid at an annual prepayment percent of 120 percent (10 percent × 12) in the first month, an annual prepayment percent of 60 percent (5 percent × 12) in the second month, and an annual prepayment percent of 36 percent (3 percent × 12) in the third month.

The second observation is that the unpaid pool balance at the end of the first month is $900,000 ($1,000,000 × [1.00 − 0.10]). Similarly, the balance at the end of month two is $855,000 ($900,000 × [1.00 − 0.05]) and the balance at the end of month three is $829,350 ($855,000 × [1.00 − 03]). Thus, over this three-month period, the outstanding pool balance has declined from $1,000,000 to $829,350. This is the same as if approximately 6.047 percent of the pool had prepaid each month. The CPP is 6.047 percent × 12 or 72.56 percent.

The third pertinent observation is that the monthly cashflow for the varying percent prepayment example is not the same as the cashflow from the 72.56 percent CPP situation; only the unpaid balance is the same. Not only that, but the unpaid pool balance is the same regardless of the order in which the 10 percent, 5 percent, and 3 percent prepayments occur; the cashflows vary greatly.

Applying this CPP methodology to amortizing mortgage pools is more difficult than the simple non-amortizing case, but the principles remain. The remaining pool balance is a function of both amortization and prepayment.

Kenneth R. Scott is president of Financial Publishing Company in Boston, a post he has held since 1968. He is especially interested in the application of computers and mathematics in modeling and analysis for financial decisions.

James E. Monsma is vice president of Financial Publishing Company, responsible for corporate data processing and technical analysis. Prior to joining the company in 1980, he was a consultant in New York and a program manager with IBM specializing in helping customers apply computers to technical and business problems.

Your Loan Servicing:

When Thinking "Sale" Look for our Sails

[illegible] servicing portfolio of over $6 billion, Fleet Mortgage [illegible] (formerly "Mortgage Associates") is one of the five largest mortgage banking organizations in the nation. Savings and Loans, banks and other mortgage bankers are increasingly looking to our Correspondent Program, in particular, to eliminate the risk from their loan inventory. In the past two years, in fact, we've purchased in excess of $3 billion.

We provide pipeline protection of up to two months on current rates of FHA/VA and GPM loans. In addition, we offer multiple FHA/VA rates, accept buydowns, and purchase below market rate 15-year government loans. In every instance, you'll get the maximum price for your servicing. And we pay quickly. Further, we streamline the documentation process, making it as simple as possible.

Whether you're considering the sale of your current production or a portion or all of your portfolio—one loan or 100—consider Fleet Mortgage Corp. Our experience, resources and know-how make us good people to know. Give us a call and find out why more and more institutions are setting sail with the Fleet.

Contact Jim Loving (414) 291-8227

Fleet Mortgage Corp. A member of the Fleet Financial Group

125 E. Wells Street • Milwaukee, WI 53202

MA-3R

But given an original pool balance, original term, the interest rate, and the balance at a later point in time, a CPP rate can be derived.

When this methodology is applied to a mortgage pool or GNMA pool, the CPP is internally derived. That is, the CPP is derived from the particular pool's actual experience between two points in time. This is an entirely different approach from that using FHA experience, where prepayment is assumed to follow a pattern, but the pattern can be scaled "up" or "down." The CPP is a different way of looking at a pool, and the CPP may be a better forecast of the future.

Furthermore, if one selects a CPP rate, and if one anticipates that a pool will prepay at this rate in the future, a fair market price can be derived from the desired yield, and vice versa.

The CPP method must be looked at from an historical perspective and contrasted to earlier methods of pricing mortgage pools. In doing so, it is particularly interesting to study the data presented here in Figure 10 giving the CPP values that are equivalent to various FHA experience percentages.

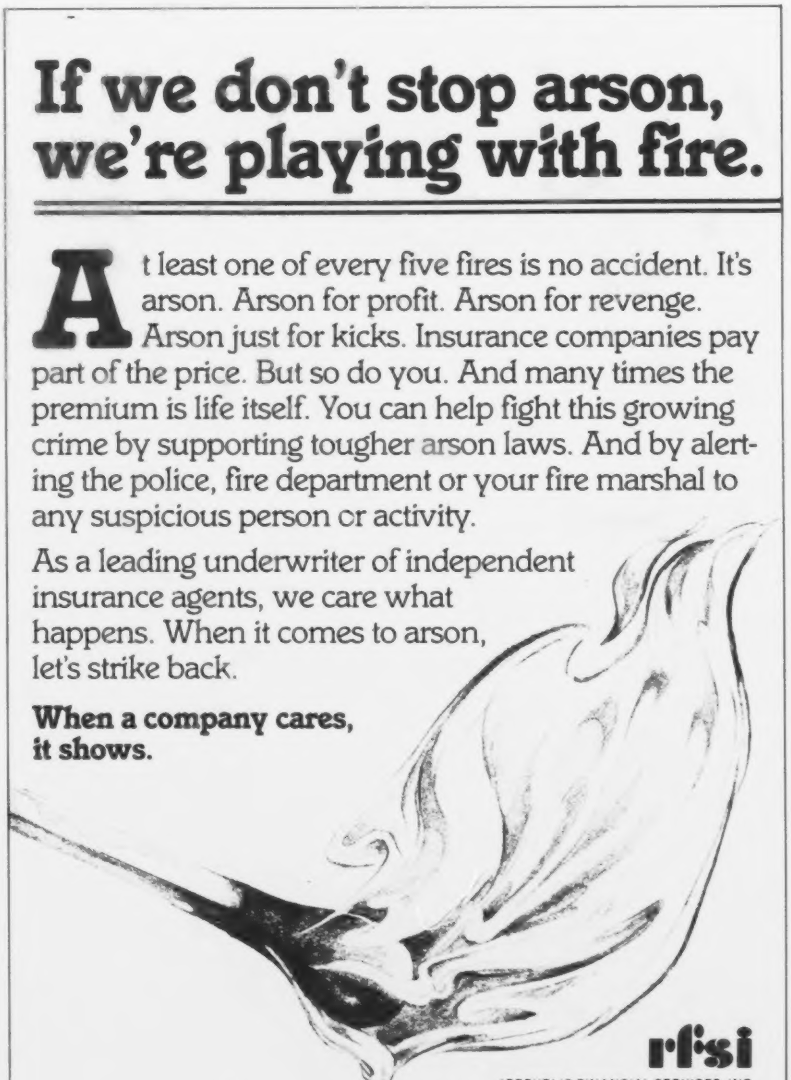
Over the past few years, four different prepayment models have been used to help get an accurate picture of the expected yield or price of a security. In this article, we have gathered these together and have demonstrated the implications of the assumptions in a consistent way.

First, we were curious as to what the model produced as the remaining balance of the security for each period. Second, we wanted to know its implications with respect to the amount of the remaining balance that was assumed prepaid each period. Finally, we wanted to know what cashflow each model assumed for the investor.

Mortgage model 1— no prepayment

This model assumes that a borrower makes each regularly scheduled mortgage payment on time and that the payment stream runs to its scheduled maturity. This mortgage payment model is used mostly for short-term mortgages, for mortgages where prepayment is precluded or penalized, or for some commercial mortgages where payment is disadvantageous (e.g., below current interest rates) or unlikely (e.g., a loan to a cooperative where the collective action of a great many sub-borrowers would be necessary).

continued



If we don't stop arson, we're playing with fire.

At least one of every five fires is no accident. It's arson. Arson for profit. Arson for revenge. Arson just for kicks. Insurance companies pay part of the price. But so do you. And many times the premium is life itself. You can help fight this growing crime by supporting tougher arson laws. And by alerting the police, fire department or your fire marshal to any suspicious person or activity.

As a leading underwriter of independent insurance agents, we care what happens. When it comes to arson, let's strike back.

When a company cares, it shows.

rfsi
*REPUBLIC FINANCIAL SERVICES, INC.
REPUBLIC INSURANCE GROUP

PROPERTY, LIABILITY, LIFE COVERAGES
Corporate Office, Eastern, Mid-Continent and Texas Departments 2727 Turtle Creek Blvd., Dallas, TX 75219 — (214) 559-1222 • Eastern Office 129 Fulton Street, New York, NY 10038 — (212) 587-0600 • Pacific Coast Department 12412 Victory Boulevard, North Hollywood, CA 91606 — (213) 877-1242 **"a "Winterthur" Company**

Figure 1 shows the remaining balance as a percent of the original balance over the 30-year life of the security. Each month the amount of the payment not required for interest was subtracted from the balance. The result is a convex curve that naturally reaches zero at the 30-year mark. (Note: The computations used to derive Figures 1–8 were done on an annual basis, whereas the remaining computations were done on a monthly basis.)

Because there are no prepayments, we have not bothered to plot a curve of the ratio of prepayment to remaining balance. Such a curve will be of interest, however, when we look at other models.

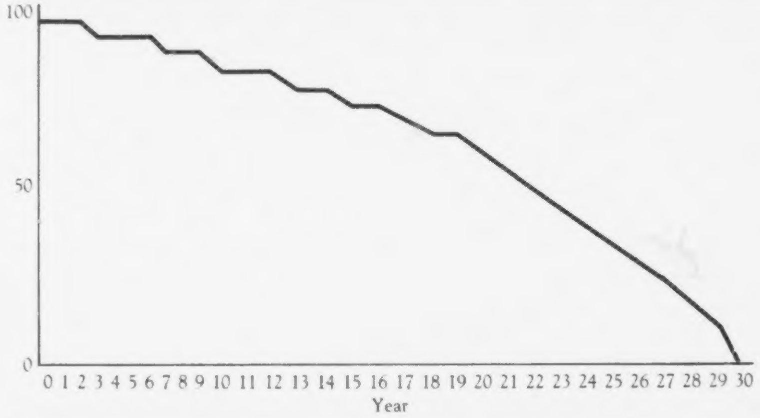
Figure 2 shows a plot of the cashflow that the model predicts the investor will receive. It is only one of a series of payments, because the exact curve depends on the yield that is used to discount the real cashflow values over time. This plot shows the curve that results when the cashflow is discounted at 10 percent per year. The number on the vertical scale (79.671) is the sum of all discounted cashflow values and thus the price of the security.

Mortgage model 2— no prepayment for a period of time; then prepayment in full

This model is the one in most common use for buying and selling single mortgages. It assumes that a borrower will make each regularly scheduled payment for a period of time and then prepay the mortgage in full. For example, the usual assumption for a 30-year single-family loan is that it will make all scheduled payments for 12 years (144 months) and then prepay in full.

Clearly, this is a realistic model to use for individual loans. Typical behavior by a mortgage holder is to make payments until the property is disposed of and then to pay off the loan. The model allows the use of a parameter that is the number of years the mortgage is held. It represents the average time that a mortgage is expected to be held and is the best choice in the ab-

Figure 1:
Plot of the Remaining Balance of an 8% Security



Source for all figures: Financial Publishing Co., Boston, Mass.

Figure 2:
Plot of the Cashflow to the Investor Discounted at 10%

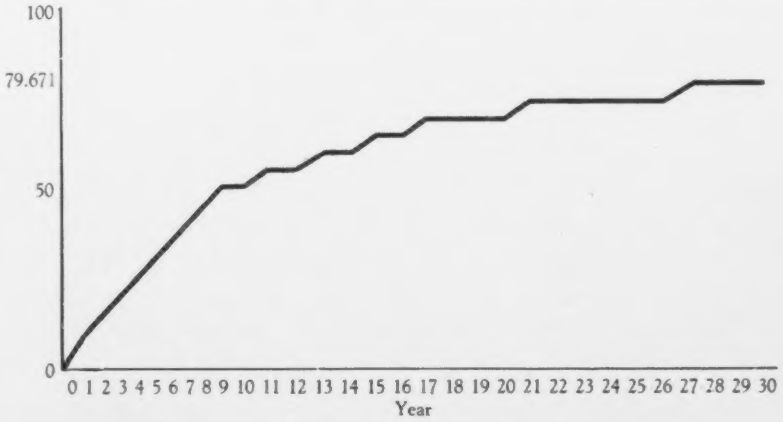


Figure 3:
Plot of the Cashflow to Investors Discounted at 10% with Prepayment at Year 12

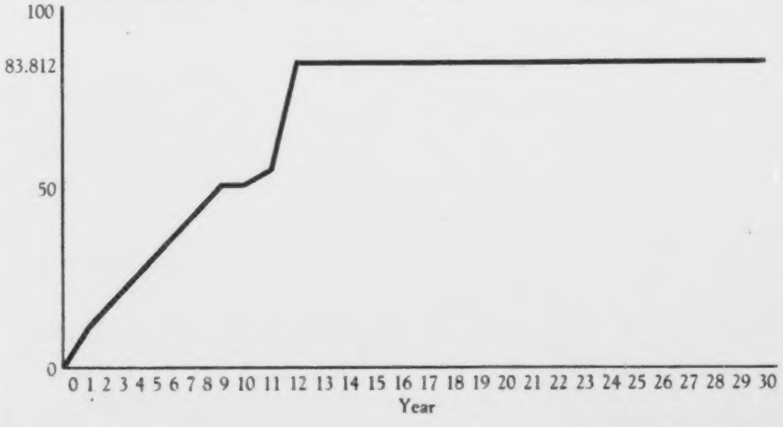


Figure 4:
Plot of the Prepayments as a Percentage of Remaining Balance Assuming 100% FHA Experience

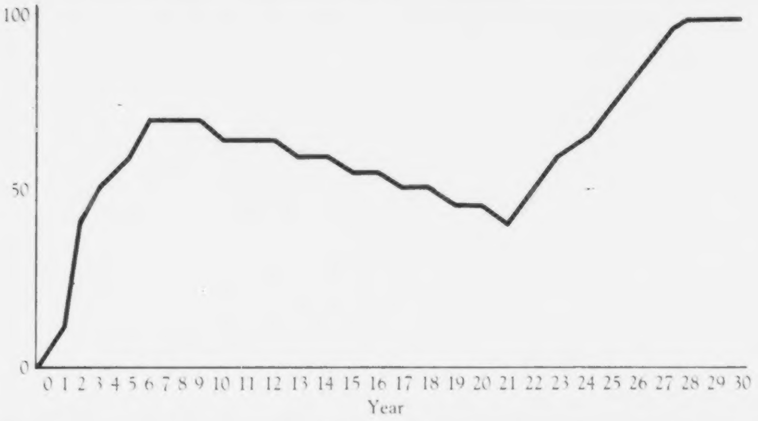


Figure 5:
Plot of the Cashflow to the Investor Discounted at 10% Assuming Prepayments at 100% FHA Experience

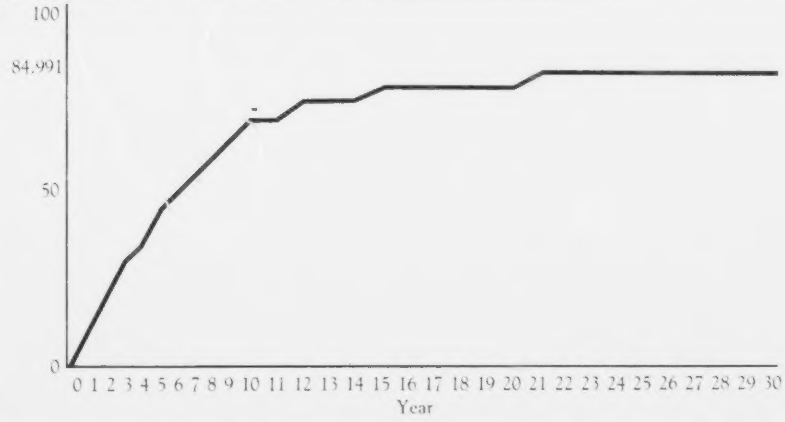
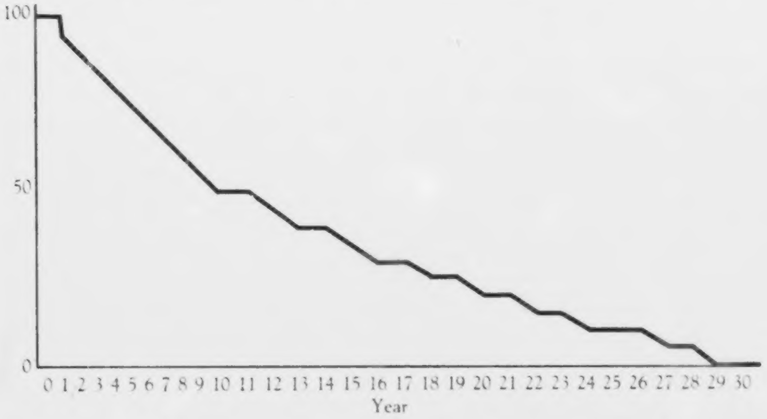


Figure 6:
Plot of the Remaining Balance of an 8% Security Assuming 5% Prepayments



sence of prior knowledge. For an individual loan, it may actually pay off at the value of the parameter.

The remaining balance curve is identical to that of model 1 until the prepayment is made. At that time, the remaining balance drops to zero.

Figure 3 shows a plot of the cashflow that the model predicts the investor will receive. The curve plotted is the one that represents a discount of 10 percent per year.

Mortgage model 3—FHA prepayment mortality

This model assumes that a pool of mortgages will prepay in accordance with FHA's mortgage mortality experience. The FHA maintains a history of mortgage survivorship for mortgages they insure: the number of mortgages still surviving (i.e. not prepaying) year after year starting with an original 100,000 mortgages. This is similar to a life insurance mortality table. Combining this mortgage mortality table with the cashflow arising from mortgage amortization, one can derive a resulting cashflow combining both amortization and prepayment. Starting with a yield, this cashflow can be discounted for price; starting with a price, the resultant yield can be derived.

Because a mortgage pool may prepay faster or slower than the FHA's experience, if following FHA's experience is 100 percent, one can rate a pool "up" or "down" with higher or lower percentages. Given the mortgage interest rate, the service rate, the original term, the starting date, and the actual balances at two different points in time, the required percentage of FHA experience may be precisely determined.

The ability to apply a percentage of FHA experience allows us to specify a lower or higher prepayment expectation than the typical FHA mortgage.

The appeal of this model is that it will probably give more meaningful answers than model 2 because it is very difficult to balance the mortgages around the average in order to take proper account of the time value of the

continued

Figure 7:
Plot of the Cashflow to the Investor Discounted at 10% and Assuming 5% Prepayment

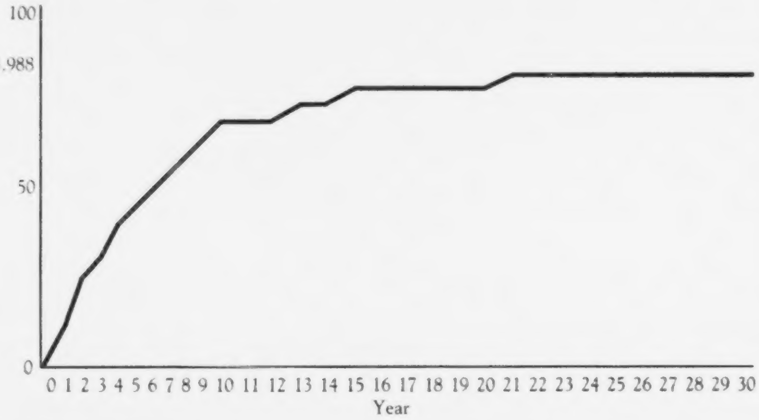


Figure 8:
Table of Equivalence between FHA Prepayment Percentage and Constant Percent Percentage with 0 Years Elapsed

30 Year Term 0 Years Elapsed
Constant Percent Prepayment Table
FHA Prepayment Percentage

To Year	2000	1000	500	200	150	100	50	0
1	22.44%	11.27%	5.65%	2.26%	1.70%	1.13%	0.57%	0.00%
2	48.74	24.62	12.38	4.97	3.73	2.49	1.24	0.00
3	66.66	33.81	17.02	6.84	5.13	3.42	1.71	0.00
4	78.29	39.81	20.07	8.07	6.06	4.04	2.02	0.00
5	87.09	44.36	22.39	9.01	6.76	4.51	2.26	0.00
6	94.87	48.41	24.45	9.84	7.39	4.93	2.47	0.00
7	101.28	51.76	26.16	10.53	7.91	5.28	2.64	0.00
8	106.35	54.41	27.52	11.08	8.32	5.55	2.78	0.00
9	109.76	56.19	28.43	11.46	8.60	5.74	2.87	0.00
10	111.87	57.30	29.00	11.69	8.77	5.86	2.93	0.00
11	113.43	58.12	29.42	11.86	8.90	5.94	2.98	0.00
12	114.46	58.66	29.70	11.97	8.99	6.00	3.00	0.00
13	114.87	58.88	29.81	12.01	9.02	6.02	3.01	0.00
14	114.87	58.88	29.81	12.01	9.02	6.02	3.01	0.00
15	114.53	58.70	29.72	11.98	8.99	6.00	3.01	0.00
16	113.94	58.39	29.56	11.91	8.95	5.97	2.99	0.00
17	113.14	57.97	29.34	11.82	8.88	5.93	2.97	0.00
18	112.20	57.48	29.09	11.72	8.80	5.88	2.94	0.00
19	111.13	56.91	28.80	11.60	8.71	5.82	2.91	0.00
20	109.91	56.27	28.48	11.47	8.61	5.75	2.88	0.00
21	108.56	55.57	28.11	11.33	8.50	5.68	2.84	0.00
22	108.07	55.31	27.98	11.27	8.46	5.65	2.83	0.00
23	108.34	55.45	28.05	11.30	8.49	5.66	2.84	0.00
24	109.31	55.96	28.31	11.41	8.57	5.72	2.86	0.00
25	110.93	56.81	28.75	11.58	8.70	5.81	2.91	0.00
26	113.12	57.96	29.34	11.82	8.88	5.93	2.97	0.00
27	115.82	59.38	30.07	12.12	9.10	6.07	3.04	0.00
28	118.97	61.04	30.92	12.46	9.36	6.25	3.13	0.00
29	124.77	64.10	32.49	13.10	9.84	6.57	3.29	0.00
30	131.88	67.86	34.42	13.89	10.43	6.96	3.49	0.00

cashflow. In addition, this model allows us to relate our calculations to data from real life, assuming that the situation is similar to the FHA experience.

Figure 4 is a plot of the percentage of the remaining balance that is prepaid each period. It shows a surprising bimodal pattern that peaks at about seven years and again near maturity. While the first mode is significant to the model, the second is of little or no importance because the cashflow generated is very small and shrinks even further under the influence of the time value of the money.

Figure 5 shows a plot of the accumulated cashflow that the model predicts the investor will receive, discounted at 10 percent per year.

Mortgage model 4—constant percent prepayment

This model assumes that each month after origination a fixed percentage of the mortgage value will be prepaid. This prepayment percentage will be expressed as the equivalent annual percent (i.e. the annual percent = the monthly rate times 12). Given the mortgage interest rate, the service rate, the original term, the starting date, and the actual balances at two different points in time, the required CPP may be precisely determined as with the preceding FHA experience model.

The results of using model 4 are similar to those of using model 3. The appeal of model 4 is that it is easier to envision a single rate of prepayment than a mortality table based on observed, empirical data of somewhat questionable quality and applicability.

The mathematics of manipulating the CPP model are not trivial, yet they are not nearly so difficult as the FHA experience model. As a touchstone, one can derive a table of remaining balances for different CPPs and proceed just as if FHA experience were being used.

Figure 6 shows the remaining balance as a percentage of the original balance assuming a 5 percent rate of prepayments. The result is a concave

continued

curve similar to model 3 but resulting from different data derived from the different assumptions.

Figure 7 shows a plot of this accumulated cashflow to the investor discounted at 10 percent per year. As with the remaining balance, the curve is very like the curve produced by model 3, but again for different reasons.

Comparison between model 3 and model 4

It is interesting to compare model 4 with model 3, because there is a similarity between the two. Each gives a measure of the increased reduction in the remaining balance between two points in time due to prepayments. For a given pool with a known original term and known outstanding balances at two different points in time, the derived FHA experience is a complicated function of the pool interest rate. For the same pool, the CPP rate is also a function of the interest rate. However, a surprising fact appears: once the reduction due to principal payments has been accounted for, the remaining reduction is independent of the interest rate. In other words, given a set of balances at two points in time, each FHA prepayment experience will have an equivalent CPP, and vice versa, totally independent of the interest rate. Figure 8 gives a table of the equivalent CPP to FHA prepayment percentage at the inception of the pool. Similar tables can be produced for different elapsed years.

The manner in which FHA experience is applied is equivalent to 30 annual constant percent prepayment values used sequentially. Figure 9 is a table of the 30 different constant percent prepayments from the current FHA mortgage mortality table. (Note: A similar comparison can be made for models 1 and 2. Model 1 is equivalent to model 4, with the percentage prepayment in all periods equal to zero. Model 2 is equivalent to model 4 with the percentage prepayment set to zero for periods 1 to 143; to 100 for period 144; and to zero for the remaining periods.)

Figure 9:
Table of Annual Prepayment Percentages from Current FHA Experience

YEAR	C%P	YEAR	C%P	YEAR	C%P
0- 1	1.13	10-11	6.80	20-21	4.20
1- 2	3.84	11-12	6.62	21-22	5.08
2- 3	5.30	12-13	6.29	22-23	5.99
3- 4	5.89	13-14	6.02	23-24	6.94
4- 5	6.39	14-15	5.75	24-25	7.93
5- 6	7.03	15-16	5.48	25-26	8.93
6- 7	7.36	16-17	5.23	26-27	9.93
7- 8	7.49	17-18	4.99	27-28	10.93
8- 9	7.23	18-19	4.76	28-29	15.53
9-10	6.90	19-20	4.48	29-30	18.38

Figure 10:
Table of Equivalent Constant Percent Prepayments for Different Elapsed Years

FHA%	30 YRS 0 ELP	29 YRS 1 ELP	28 YRS 2 ELP	27 YRS 3 ELP	25 YRS 5 ELP	23 YRS 7 ELP	20 YRS 10 ELP
2000	51.05	85.14	105.92	116.59	135.65	140.16	128.33
1500	42.50	66.87	81.47	89.10	103.19	107.34	96.97
1000	32.57	47.51	56.29	61.40	69.94	71.16	64.14
800	28.03	39.24	46.02	49.68	56.08	56.86	51.35
500	19.91	26.18	29.88	32.18	35.11	35.13	31.67
400	16.78	21.60	24.31	25.88	28.17	27.75	25.02
300	13.35	16.62	18.59	19.57	20.99	20.59	18.66
200	9.40	11.43	12.54	13.15	13.90	13.57	12.27
150	7.28	8.68	9.48	9.88	10.38	10.08	9.19
125	6.16	7.27	7.92	8.25	8.58	8.35	7.66
100	4.99	5.85	6.36	6.58	6.85	6.68	6.06
75	3.81	4.41	4.76	4.96	5.13	4.98	4.54
50	2.58	2.96	3.17	3.28	3.42	3.30	3.01
25	1.30	1.48	1.60	1.65	1.69	1.63	1.50
0	0.00	0.00	0.00	0.00	0.00	0.00	0.00

A natural question that arises is: "What is the CPP most representative of a given FHA experience percentage?" Using the current FHA mortality table, we have derived a CPP that is approximately equivalent to the anticipated percent of FHA experience for each number of elapsed years, under today's market conditions. Figure 10 is a table of these percentages.

To show the relationship between the models more clearly, Figure 11 shows a plot of the cashflows predicted by an FHA experience model at 100 percent FHA and a CPP model at 5.00 percent.

A conclusion that we would draw from the preceeding demonstration is that the CPP model is as useful as the FHA experience model. In fact, the FHA experience factors are not sufficiently precise as to warrant preferring that model to the CPP model.

Comparisons of models 3 and 4 based upon actual experience

Both the FHA experience model (model 3) and the CPP model (model 4) forecast cashflows and outstanding balances given the actual outstanding balances at two different points in time. Possibly the most extensively studied pools are those insured by GNMA. We have chosen three typical pools for comparison. We wish to compare the actual, observed outstanding balance from origination to July 1983 with the

continued

Figure 11:
Plot of the Cashflow to the Investor with 100% FHA Experience and 5.00 % Constant Percent Prepayment

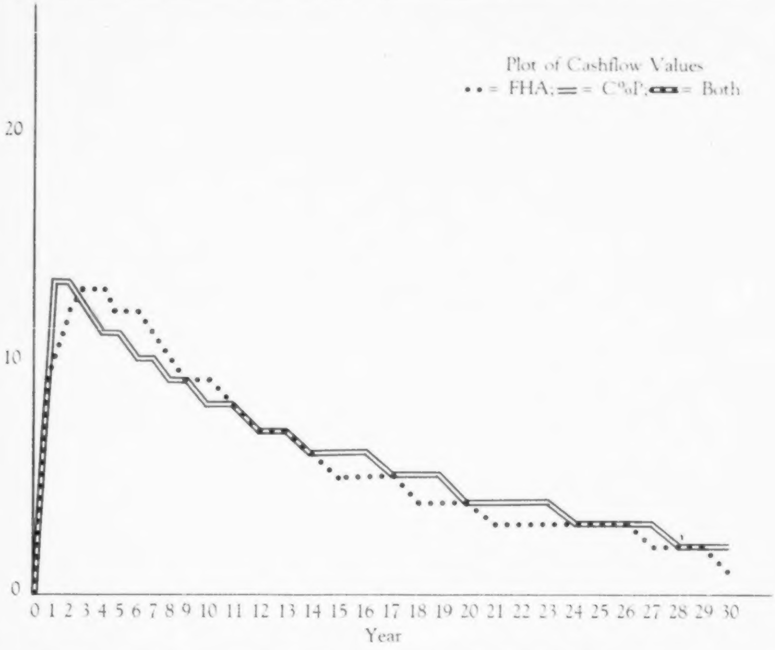


Figure 12:
Examples of Pool Performance

Pool Number	21354		50394		50263	
Pool Rate	8%		12%		16%	
Issue Date	1/01/78		8/01/81		11/01/81	
As Of	Balance FHA%	Factor C%P	Balance FHA%	Factor C%P	Balance FHA%	Factor C%P
Issue Date	3,968,387 0	1.00000 0.000	4,014,167 0	1.00000 0.000	1,019,203 0	1.00000 0.000
7/01/80	3,731,792 214	.94038 1.643				
1/01/81	3,535,763 142	.89098 3.009				
7/01/81	3,486,134 71	.87848 2.843				
1/01/82	3,436,591 67	.86599 2.717	4,008,425 2	.99857 0.030	1,018,203 15	.99951 0.172
7/01/82	3,389,716 62	.85418 2.600	4,001,290 1	.99679 0.027	1,017,135 16	.99797 0.177
1/01/83	3,370,146 52	.84925 2.343	3,949,986 35	.98401 0.803	967,480 285	.94925 4.323
7/01/83	3,303,311 50	.83241 2.386	3,895,859 44	.97053 1.214	695,067 1030	.68197 22.611

outstanding balances forecast by FHA experience and CPP. The three pools we have chosen are as follows:

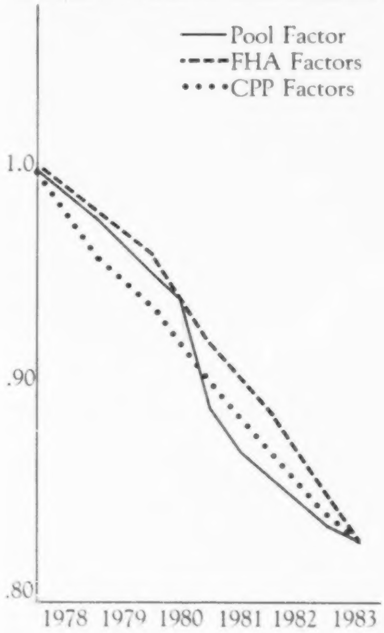
1. GNMA #21354, 8%, Original Balance $3,968,387 issued on 1/01/1978 with final maturity on 1/01/2008.
2. GNMA #50694, 12%, Original Balance $4,014,167 issued on 8/01/1981 with final maturity on 8/01/2011.
3. GNMA #50263, 16%, Original Balance $1,019,203 issued on 11/11/1981 with final maturity on 11/11/2011.

Figures 12 & 13 show the actual experience versus the expected. Figure 12 is a table showing the pool balance at various points in time. With each point is the factor, that is, the fraction of the original balance still outstanding, the FHA exprience percentage at the time, and the CPP.

Figure 13 shows a plot of the balance factors for Models 3 and 4 for pool number 21354. It shows that the CPP curve is consistently below the FHA one. Similar plots for the other sample pools produce similar results. This is reasonable because early in the life of each pool the fraction prepaying under the FHA experience model starts at a low value and then increases through

continued on page 72

Figure 13:
Observed Outstanding Balances of Pool #21354 (reduced to unit value) and equivalent FHA and CPP factors



Enjoying Equity with Second Mortgage Loans

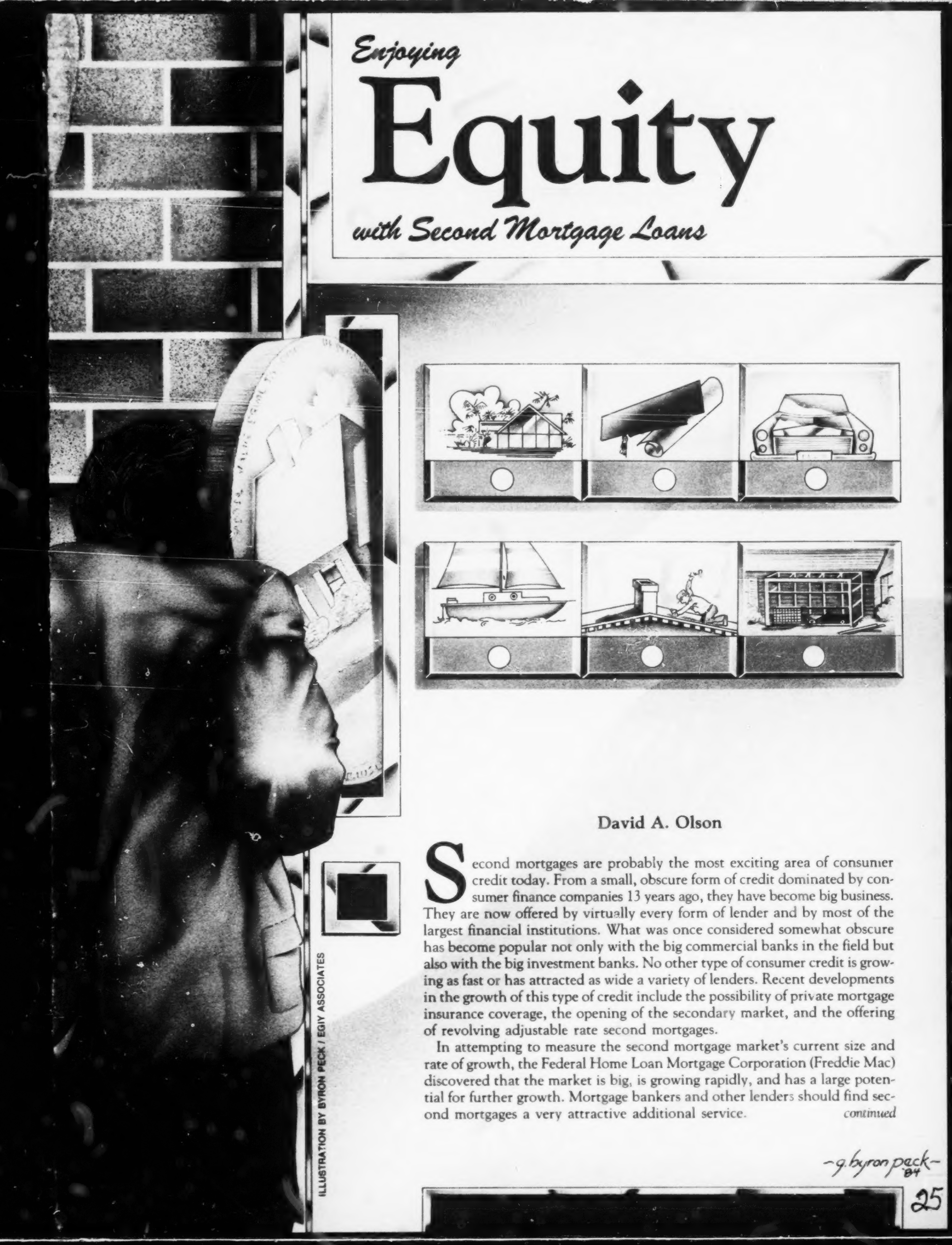


ILLUSTRATION BY BYRON PECK / EGIY ASSOCIATES

David A. Olson

Second mortgages are probably the most exciting area of consumer credit today. From a small, obscure form of credit dominated by consumer finance companies 13 years ago, they have become big business. They are now offered by virtually every form of lender and by most of the largest financial institutions. What was once considered somewhat obscure has become popular not only with the big commercial banks in the field but also with the big investment banks. No other type of consumer credit is growing as fast or has attracted as wide a variety of lenders. Recent developments in the growth of this type of credit include the possibility of private mortgage insurance coverage, the opening of the secondary market, and the offering of revolving adjustable rate second mortgages.

In attempting to measure the second mortgage market's current size and rate of growth, the Federal Home Loan Mortgage Corporation (Freddie Mac) discovered that the market is big, is growing rapidly, and has a large potential for further growth. Mortgage bankers and other lenders should find second mortgages a very attractive additional service.

continued

Definition

Freddie Mac considers a second mortgage to be any loan secured by a junior lien on a one-to-four family residential property or condominium. Excluded are loans secured by junior liens on commercial or industrial properties, with the exception of non-owner occupied one-to-four family properties and condominiums. Some market participants refer to second mortgages as "home equity finance." There are three general types of second mortgages when judged by use of the loan: home improvement loans; purchase money/refinance loans; and personal loans secured by junior liens for purposes unconnected with the property, such as loan consolidation, vacations, education, and medical expenses.

Statistical problem

Despite the vast size and rapid growth of this form of loan, there are very little data and scanty literature on the subject. The main reason for this lack of information is the practice of commercial banks and savings and loan associations of combining most of their first and second loans on their balance sheets. Neither the Federal Reserve nor the Federal Home Loan Bank Board has attempted to report this type of mortgage loan separately, except for a few ad hoc, partial reports. Consumer finance companies are not Federally regulated, and so neither agency has regularly reported on this market segment. The Federal Reserve did do benchmark surveys of the consumer finance company seconds in 1975 and 1980 and beginning in 1984 will do monthly reports on this market segment.

No single trade association embraces the industry. The two most relevant associations are the American Financial Services Association (AFSA, formerly called the National Consumer Finance Association) and the National Second Mortgage Association (NSMA). Neither has attempted to measure the entire market. The AFSA only recently attempted to measure the consumer finance segment of this market. The NSMA's annual survey covers rates and terms but not market size. Measures of credit union and mortgage banker second mortgage loans outstanding ("outstandings") are published annually by the Credit Union National Association and the Mortgage Bankers Association.

David Olson is the Director of Product Development Analysis at Freddie Mac. He formerly worked as an economist and financial analyst at Commercial Credit Co., Household Finance Corp., and Trans Union Corp.

The only really comprehensive data have come from the decennial census by the U.S. Bureau of the Census. These data have been collected on second mortgages for the past four decennial surveys as part of the residential finance survey. The data for 1981 were just released and form the central basis for this study. (See Table 1.) In mid-1981, the Census Bureau looked at a stratified sample of 17,046 residential land parcels of which 926 had junior liens (5.43 percent). Data were collected from the property owners on the second mortgage lender, who was then contacted. Because the survey is mandatory, the response rate was more than 90 percent. The Census findings contain at least three questionable numbers, which have been modified in Table 2.

Second mortgages held by consumer finance companies that are wholly owned by commercial banks are reported as held by commercial banks in the Census Report. This results in a greatly understated total for consumer finance companies. For this reason, the Census figure is inconsistent with the results of the surveys taken by the Federal Reserve and the AFSA. Those two surveys measure consumer finance holdings in 1981 at about $11 billion, which is almost double the Census residual category "other," where consumer finance companies are included. Analysts at the Census Bureau admit this problem. It is estimated that the size of this error is about $5 billion.

The second problem is of similar magnitude. Mortgage companies are reported as holding $4.2 billion in second mortgages, which is inconsistent with the MBA's 1981 survey results. That survey reported mortgage bankers originating $740 million in second mortgages in 1981. Because mortgage bankers typically would hold only two months of originations in inventory (and second mortgage companies hold little or nothing), this must be the amount of loans serviced. In mid-1981, most of mortgage bankers' second mortgages were reportedly sold to commercial banks. Therefore, the total stock of mortgages held by mortgage bankers and second mortgage companies was more likely around $400 million, and the commercial bank number should probably be raised by around $2 billion. The rest of the amount incorrectly allocated to mortgage companies was distributed among individuals, consumer finance companies, and others as shown in Table 2.

The third questionable number is the creation of a category called "Federal Secured Pools" having $273 million. There has never been a Federally secured pool of second mortgages. This category actually consists of loans held by the Farmers Home Administration (FmHA). So this category should really be combined with the category "Federal Agencies," because conceptually it is no different. That category includes primarily defaulted loans held by the Small Business Administration (SBA) and The U.S. Department of Housing and Urban Development (HUD) (FHA Title I and 312 loans).

Size of market

In 1971, total outstandings were estimated at about $4.9 billion. The actual number reported by the Census

continued

Table 1

Junior Mortgage Loan Outstandings by Holder, 1981

($ millions)

Commercial Banks	$12,790
Individuals or Estates	8,290
Savings and Loan Associations	6,824
Mortgage Companies	4,167
Mutual Savings Banks	748
Federal Agencies	447
Real Estate or Construction Companies	407
Federal Secured Pools	273
Life Insurance Companies	1
Other	6,693
Total	$40,639

Source: U.S. Bureau of the Census, 1980 Census, Residential Finance, HC 80-5

Table 2

Junior Mortgage Loan Outstandings by Holder, 1981

($ millions)

Consumer Finance Companies		$11,400
Commercial Bank Owned	$5,507	
Other	5,893	
Commercial Banks		9,733
Individuals and Estates		9,000
Savings and Loan Associations		6,824
Credit Unions		1,000
Mutual Savings Banks		748
Federal Agencies (HUD-FHA, SBA, FmHA)		720
Real Estate or Construction Companies		407
Life Insurance Companies and others		407
Mortgage Companies		400
Total		$40,639

Source: U.S. Bureau of the Census, 1980 Census, Residential Finance HC 80-5; Federal Reserve Board; Credit Union National Association; HUD; Mortgage Bankers Association; California Association of Realtors; American Financial Services Association; Record Data, Inc.; The Money Store.

Bureau was $4.1 billion, but the Census report included nothing for consumer finance companies, which was known from the NCFA survey to be about $800 million. By 1981, the Census Bureau measured outstandings at $40.6 billion. (See Table 1.) That implies a compound average annual growth of 24 percent during that decade. That is a phenomenal record and by far exceeds the rate of growth for total personal credit. The only other major segment of personal credit that grew at nearly this rate was credit cards. According to data available at Record Data, Inc. (a courthouse record verification firm in Cleveland, Ohio), second mortgage originations grew from $20 billion in 1981 to $36 billion in 1983. This implies that in 1983 total outstandings could be as high as $70 billion, which would mean a 31 percent compound annual average growth rate during the past two years.

The holders of outstandings in 1981, judging from the best available data sources (see Table 2), were consumer finance companies (whether independent or wholly owned by commercial banks or other financial institutions) with $11.4 billion. Commercial banks held an estimated $9.7 billion, individuals probably held $9 billion, S&Ls $6.8 billion, credit unions $1 billion, mutual savings banks $700 million, Federal Agencies (SBA, HUD, and FHA) $700 million, real estate and construction companies $400 million (of which the majority is held by builders), life insurance companies and others $407 million, and mortgage companies $400 million.

Comprehensive data on second mortgage volume are unavailable. Judging from the Federal Reserve survey, volume was about half the size of outstandings in 1980. This implies that total volume in 1981 for all lenders was about $20 billion. This number is verified by sources at Record Data, Inc., who also have estimates for 1982 and 1983. (See Table 3.) In 1971, volume was about $2 billion, which implies a compound average annual growth rate of 26 percent more than the 1971–1981 decade and some acceleration since.

In 1983, it is estimated that consumer finance companies dominated the industry with origination volume of $11 billion. Commercial banks were the next largest segment with about $8 billion, up from $3 billion in 1981. This segment is probably growing the fastest. The third biggest segment is individuals (mostly seller take-backs). This segment is probably about $5 billion and declining from a peak of $5.5 billion in 1982. With the expanded powers granted them under the Garn-St Germain Depository Institutions Deregulation and Monetary Control Act, S&Ls have been aggressively expanding their second mortgage originations and are up to about $4.2 billion in 1983 from $3.4 billion in 1981.

Mortgage companies may have originated as much as $6.0 billion in 1983, up from $2.1 billion in 1981. Mortgage bankers, which are larger firms that not only originate but also service these loans after they are sold to permanent investors, did about $1 billion in 1983, which is double the pace of 1981.

Second mortgage companies, which are smaller firms and only originate loans for others but do not service them, appear to be growing at a rapid pace based on reports from Record Data, Inc. and The Money Store. The volume originated by these firms may have grown to $5 billion in 1983, up from $1.4 billion in 1981.

The next largest originator segment is probably credit unions, with an estimated $900 million in 1983. This segment is followed by the mutual savings banks, with an estimated $500 million in 1983, up from $350 million in 1981. (Mutual savings banks are primarily in the Northeast and are following the growth pattern of S&Ls.)

Investment bankers did about $300 million in 1983 and are growing very rapidly. Real estate companies and construction companies may have originated about $100 million in 1983 and probably are experiencing little growth.

continued

Table 3

Second Mortgage Originations 1978-1983 ($ billions)

YEAR	1978	1979	1980	1981	1982	1983
Commercial Banks	$ 1.6	$ 1.8	$ 2.0	$ 3.0	$ 5.0	$ 8.0
Svgs. & Loan Assns.	1.0	1.8	2.7	3.4	4.0	4.2
Mutual Svgs. Banks	.1	.2	.3	.35	.4	.5
Mortgage Bankers	.3	.3	.5	.7	.6	1.0
Cons. Finance Cos.	3.2	4.2	5.3	6.5	7.0	11.0
Second Mtge. Cos.	1.0	1.1	1.2	1.4	2.5	5.0
Seller Takebacks	3.0	4.0	5.0	5.0	5.5	5.0
Credit Unions	.2	.3	.4	.5	.7	.9
R.E. & Const. Cos.	.1	.1	.1	.2	.2	.1
Investment Brokers	0	0	0	0	.1	.3
Total	$10.1	$13.4	$17.0	$20.4	$26.0	$36.0

Source: Advance Mortgage Co., U.S. Housing Markets; Federal Reserve Board; U.S. Bureau of the Census; FHLMC; National Second Mortgage Association; American Financial Services Association; Record Data, Inc.

Contract types

Second mortgages can also be classified according to contract type: fixed contract vs. revolving. Revolving credit programs using home equity as collateral and accessed through check or credit card are the latest milestone in the development of second mortgages. This innovation began in January 1982 with Merrill Lynch's Equity Access Loan. The only other originators known to be in this form of lending are several other investment brokers (Shearson/American Express, E.F. Hutton, and more recently Dean Witter/Sears and Prudential/Bache); some of the large commercial banks (Citibank, Goldome, Chemical Bank, Wells Fargo, and Crocker); and a few large consumer finance companies (Beneficial).

The NSMA believes that only 5 percent of consumer finance originations are in the revolving contract form. Perhaps 10 percent of commercial bank originations are of this form. All investment broker volume comes in this form. (See Table 4.) This means that only about $1.3 billion, or around 6 percent of current originations, are revolving loans. But it is clear from discussions with the major originators that this is the pattern of the future and could constitute half of volume within a few years.

Second mortgages can be perceived from yet another perspective: fixed-rate yield or adjustable. Similar to the trend within the residential first mortgage and commercial loan market, lenders are becoming concerned about having any fixed-rate assets in their portfolios. Very little data are available on the proportion of adjustable rate seconds, but it appears to be somewhat less than 5 percent of total volume. Moreover, most of the adjustables are also apparently revolving loans. They are offered by the investment brokers and the large commercial banks mentioned above. There is clearly a great deal of interest in this form. Rates are very competitive. Two points over prime seems to be typical. At least one firm is offering loans for as low as 1½ points over prime. Known adjustment periods being offered in the market are daily, monthly, annually, and triennially.

Trend in yields

One of the unusual features of second mortgages is the wide spread of yields that can exist in a given market at the same time. In the mid-1970s, yields ranging from 10 to 23 percent were observed. The lower rates represented discounted rates on takeback seconds, and the higher rates represented high-risk personal loans for small amounts. Because interest rates on first mortgages were 8 to 10 percent, there was an extensive spread in first mortgages.

By the late 1970s, first mortgage rates rose, and the spread narrowed. Four hundred basis points (bp) were more typical. In 1979, private mortgage insurance firms began to insure second mortgages, which helped to reduce this spread. The entry into the secondary market for second mortgages of Freddie Mac in February and Fannie Mae in November 1981 also contributed to a lowering of these spreads.

Second mortgage originators who were waiting to sell into the secondary market then were confident that they had a floor to their potential profit spread, namely the servicing they would gain from the loan sold to Fannie Mae or Freddie Mac. Perhaps it was this reduction in their downside risk that made originators willing to accept a lower gross yield. Another reason for this acceptance was the great increase in the average size of a loan, because operating costs were not fixed and thus increased far less than proportionally to loan size. More highly leveraged lenders (commercial banks and S&Ls) who could be profitable with the lower spreads were entering the market.

Yet another reason for this acceptance was the lower risk many lenders experienced with their second mortgages than with their first mortgages.

Table 4

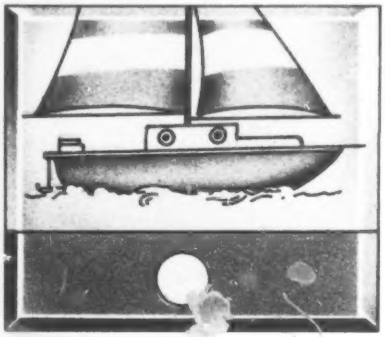
Investment Broker Second Mortgage Outstandings, 1983

($ millions)

Merrill Lynch	$200
Shearson/American Express	80
E.F. Hutton	40
Dean Witter/Sears	neg*
Prudential-Bache	neg*
Total	$320

Source: National Second Mortgage Association

*neg. = negligible; just starting



Freddie Mac, for example, recently had a 2 percent delinquency rate on its second mortgages vs. a 2.6 percent delinquency rate on its first mortgages.

By 1982, the spread over 30-year fixed-rate first mortgages was more commonly 50bp. It could be argued that in the future, rates for large, low loan-to-value (LTV) second mortgages will be driven down to rates for 15-year first mortgages. Rates for adjustable rate seconds are already available for as low as 1½ points over prime, or a total of 12.5 percent. This is the upper range of rates that some lenders get for first mortgage, one-year ARMs.

Regional trends

Regional data on second mortgages are almost impossible to obtain on a comprehensive basis. Surveys by NAR and General Electric Mortgage Insurance Corporation (GEMIC) indicate that second mortgages are much more widespread in the West than elsewhere in the country and are least prevalent in the Northeast. In the West, 94.4 percent of S&Ls offer seconds. In the North Central, 81.7 percent. In the South, 73.9 percent and in the Northeast, 67.6 percent. This would reflect the much sharper increase in home prices in the West and the younger median age of the population. S&Ls tend to be larger in the West. There is more home equity to borrow against. With much higher average home prices, second mortgages become virtually standard. Younger people (21 to 45) tend to borrow more than those over 45.

Underlying potential

The underlying foundation of this form of lending is unencumbered home equity, which appreciated enormously with the increase in inflation in the 1970s. By 1981, the value of home equity, excluding all forms of home mortgage debt, was $1.7 trillion (according to the decennial census). Despite the rapid increase in second mortgage debt as a percentage of unencumbered home equity, it only constituted 2.4 percent in 1982. [Note that the 1981 Census survey found that 5.43 percent of all residential properties had junior liens.] In 1971, the second mortgage debt to unencumbered home equity ratio was 0.2 percent. And there is still virtually unlimited room for further second mortgage growth, because the available collateral has barely been touched.

Growth trends

Of the three basic types (by use) of second mortgages, the greatest growth is likely to take place in personal loans. This segment, which already comprises about half the market, is particularly well-adapted to the new revolving adjustable loans. Most lenders would rather not be bothered with policing the use of the funds. One study by a major lender showed that half of its customers misrepresented the use they would make of the funds. Because there seems to be little correlation between use and default, lenders are tending to overlook use, prefering the flexibility of not having to ask what use will be made of the loan proceeds. This is the market segment that is attracting the big commercial and investment banks.

Home improvement seconds should experience a smaller growth rate because much of the volume is shifting to personal loan seconds, and lower interest rates on firsts are permitting some homeowners to sell their homes rather than to enlarge their present ones. Still, home improvement loans tend to increase with economic expansion, as consumers increase their discretionary income. California homeowners have a further inducement to improve their homes rather than sell, because under Proposition 13 their real estate taxes are based on the assessed value of their home in 1975 plus no more than a 2 percent annual appreciation. Because home prices rose enormously in the late 1970s, there is therefore a great incentive for those who purchased earlier to remain in their homes.

The other segment of this market—purchase money/refinance loans—will probably experience the least growth. Very few assumable, conventional, fixed-rate, first mortgages remain, which was the great impetus to growth in this segment. There appears to be a marked decline in seller takebacks. Of course, FHA/VA first mortgages can still be assumed and thus support this market segment. Currently the net effect may be no growth in this market segment.

Advantages

Thus, it would appear that the total growth in second mortgage volume is probably currently up from the 25 percent annual rates of the 1970s and more likely growing about 30 percent per year. Most of the growth is in the personal loan segment, particularly the revolving adjustables offered by the big commercial and industrial banks. The added competition from these new lenders could very likely bring yields down to levels comparable to 15-year first mortgages. In the near future, more active participation by Freddie Mac and Fannie Mae in this market (if permitted by Congress) would also support this trend. Freddie Mac hopes to get additional powers from Congress to acquire purchase money/refinance second mortgages.

For a lender looking for increased growth and profits, second mortgages offer several distinct advantages. Gross yields still exceed those for first mortgages by about 50bp. Delinquency rates and charge-offs for programs run by most experienced lenders are below those for first mortgages. Growth rates in volume are very high, possibly exceeding rates for any other product. The market is large, and potential growth based on remaining unencumbered equity is vast. There could be a great deal more substitution from other forms of lending, especially away from

continued

unsecured personal loans, which became so unprofitable to lenders following the Bankruptcy Act that became effective in October, 1979. Average experienced maturities (average length of time loan stays in portfolio) are about half of those for 30-year first mortgages (i.e., about 4 years), thus permitting a closer maturity match between assets and liabilities. The ability to sell loans in the secondary market gives added flexibility to these loans. Now with the possibility of making these loans adjustable and revolving, one can diminish interest rate risk even further, lower origination costs, and keep these loans on the books for a longer period. These features indeed make second mortgages very attractive. All lenders should give this market a close look. ☐

Bibliography

American Financial Services Association. Second Mortgage Lending at Finance Companies: Industry Characteristics–1982. *Washington, D.C., 1983*

Bankers Research. Second Mortgage Lending from A to Z. *Westport, Conn., 1981. (Second edition will be published in early 1984.)*

Blass, Walter P. "Seconds: A Snowballing Market," Mortgage Banking, *February 1983. Originally published in the October 22, 1982 edition of* U.S. Housing Markets, *a publication of Advance Mortgage Corp., Southfield, Mich.*

California Association of Realtors. Alternative Financings—Implications for the Housing and Mortgage Credit Markets, *March 1983.*

________. 1982 Housing Finance Study, *September 1982.*

Control Data Corporation. "The Growing Use of Second Mortgages," Consumer Month, *Vol. 2, No. 3 (March 1977).*

General Electric Mortgage Insurance Companies. Adjustable Type Mortgages, Survey Number 4 *(July 1983).*

Hurley, Evelyn. "Survey of Finance Companies, 1980." Federal Reserve Bulletin. *Vol. 67, No. 5 (May 1981), pp. 398–409.*

National Association of Realtors. "Second Mortgage Loans Used in Fewer Home Sales this Spring," Housing Finance, *Vol. 3, No. 7 (July 1983).*

Rosser, Michael. "Second Mortgages: Coming of Age." Mortgage Banking. *Vol. 44, No. 2 (November, 1983), pp. 21-28.*

Seiders, David. Junior Mortgage Financing and Other Borrowing Against Inflated Housing Equity. *Working Paper Number 25. Lafayette, Ind.: Credit Research Center, Krannert Graduate School of Management, Purdue University, n.d.*

Synergistics Research Corp. Evolution of Second Mortgages to Home Equity Access Programs. *Atlanta, Ga.: October, 1983.*

U.S. Bureau of the Census. 1980 Census, Residential Finance. HC 80–5. *Washington, D.C., 1983.*

FNMA · FHLMC · FHA · VA · RESPA · HUD

STANDARD MORTGAGE LENDING FORMS

- COMPUTER SPACED AND COMPATIBLE WITH ALMOST EVERY SOFTWARE SYSTEM.
- Used by OVER 2000 LENDERS NATIONWIDE.
- MOST STATE AND AGENCY FORMATS AVAILABLE.
- ECONOMICAL PRICING FROM 100 TO 5000 QUANTITIES. (SPECIAL QUOTATIONS ON QUANTITIES OVER 5000.)
- All FORMS FULLY GUARANTEED.

FOR FREE CATALOG & SAMPLE PACKAGE, CALL TOLL FREE:
1-800-521-7291

VMP Mortgage Forms Division
CONSOLIDATED BUSINESS FORMS, INC.
P.O. BOX 764 MT. CLEMENS, MICHIGAN 48046
(313) 792-4700

PAN AM
$400 MILLION
SOLD

Real Estate Valuing, Counseling, Forecasting: Selected Writings
of John Robert White

Beginning with a previously unpublished paper, "The Sale of the Pan Am Building," which is the definitive article on a monumental project, the 29 articles in this book exemplify the writing of one of the most influential thinkers in the field of real estate. The author's career spans almost four decades and includes every facet of real estate analysis, valuation, and counseling. His articles, from a variety of sources, trace developing professional theory and applications to specific situations. For this collection, the author has written an introduction to each paper which places it in contemporary perspective.

Order Your Copy Today! Please rush me ______ copy(ies) of Real Estate Valuing, Counseling, Forecasting: Selected Writings of John Robert White.

NAME ______________________
TITLE ______________ PH ______________
COMPANY ______________________
ADDRESS ______________________
CITY ______________ STATE ________ ZIP ________
MY CHECK FOR $______ (at $17.50 per copy plus $2.25 postage and handling per order) IS ENCLOSED.
VISA/MASTERCARD: CIRCLE THE CARD USED
CARD NUMBER ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐
NO. ABOVE NAME ☐☐☐☐ EXP DATE ☐☐☐☐☐

Mail to
AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS
of the National Association of Realtors
430 N. Michigan Ave. Dept. , Chicago, Illinois 60611-4088
Phone (312) 329-8533

HEDGING GNMA PASS-THROUGHS

Glenn Picou

In 1975, the Chicago Board of Trade began trading future contracts based on Government National Mortgage Association (GNMA) pass-through certificates. The introduction of GNMA futures marked the birth of the financial futures markets, now the largest segment of the futures industry. In less than 10 years of activity, financial futures have come to account for almost half of all futures trading.

Despite its pioneer role, the GNMA futures market has not kept pace with the overall expansion in financial futures trading. This shortfall has occurred notwithstanding the relentless growth in all facets of activity in the cash GNMA market: originations, secondary market trading, and volume outstanding. In addition, the subdued expansion of the GNMA futures market has occurred over an extended period of time that was marked by an unusual degree of interest rate volatility.

The below-trend growth of GNMA futures can be traced in an important way to their limited use as a hedging vehicle among the key participants in the cash GNMA markets: mortgage bankers, thrift institutions, banks, and money managers. It is no doubt true that GNMA futures have confronted the traditional obstacles such as unfamiliarity and a persistent speculative connotation. However, these obstacles have been overcome by other segments of the financial futures markets: T-Bond futures at the Chicago Board of Trade and the family of short-term futures contracts traded at the International Monetary Market—T-Bills, Domestic CDs, and Eurodollar Time Deposits.

continued

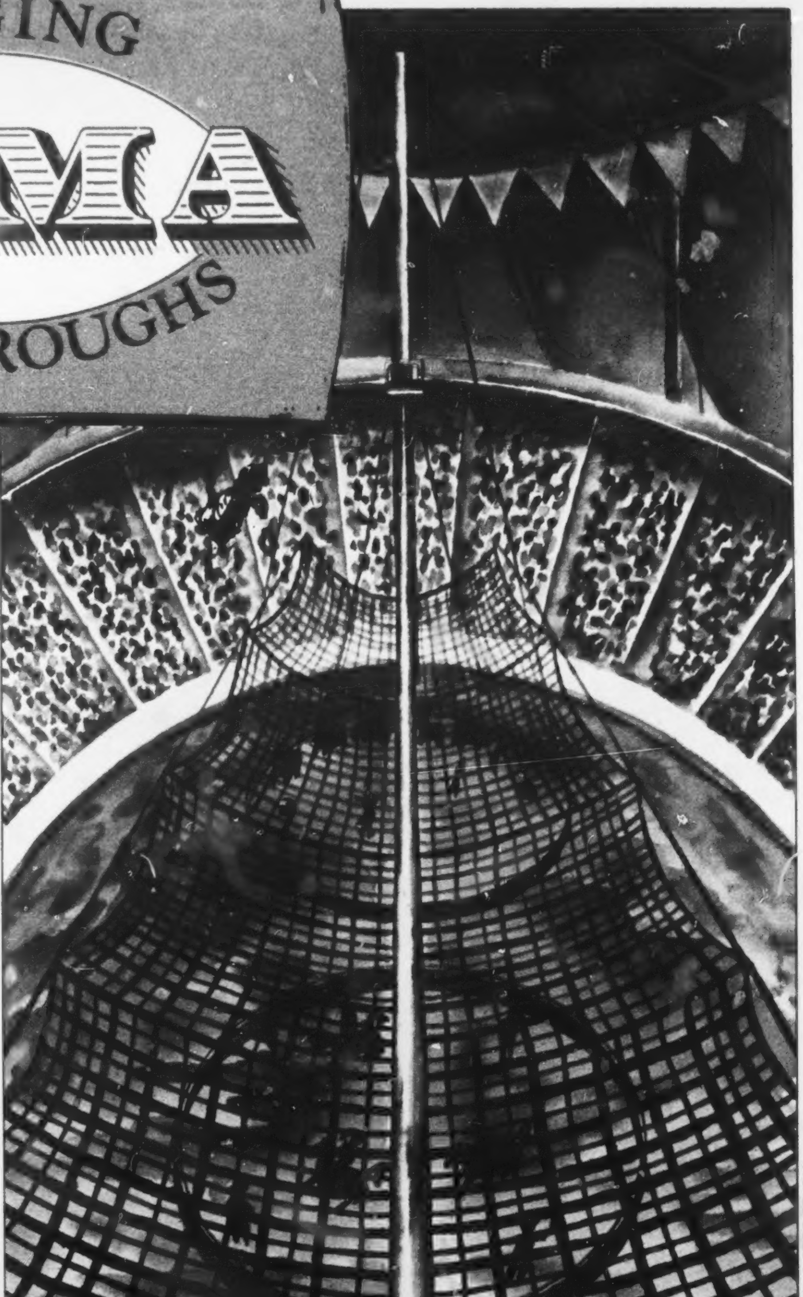
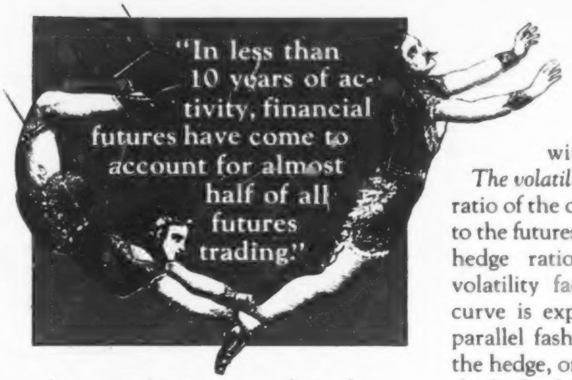


ILLUSTRATION BY NANCY URBANSKI / EUCALYPTUS TREE STUDIO



"In less than 10 years of activity, financial futures have come to account for almost half of all futures trading."

The growth in these popular futures markets clearly occurred in response to the pronounced interest rate volatility of the past several years. The resultant financial risk provided a sharp incentive for many financial institutions to use every tool at their disposal for hedging their balance sheets and earnings statements against the adverse effects of unanticipated rate movements. Those who have ventured into the markets recognize that like the cash markets, futures are inherently neither speculative nor prudent. Rather, it is the manner in which any market is used that renders it safe or risky. To many financial firms the futures markets have come to be appreciated as an efficient risk transfer mechanism.

GNMA cash and futures: some key features

That GNMA futures have not so far achieved the same degree of use as other financial futures stems from the fact that GNMAs—both the futures contract and the underlying security—entail a degree of complexity not encountered in the more popular futures markets. There are two key features in particular that can present difficulty: principal paydown and futures contract specifications.

Principal Paydown. Scheduled amortization plus unscheduled prepayments distinguish GNMA pass-throughs (and all pass-throughs for that matter) from conventional fixed-income securities. This aspect of GNMA pass-throughs requires explicit consideration in the design of effective GNMA hedges.

Futures Contract Specifications. The original Chicago Board of Trade futures contract called for delivery not of an actual GNMA pass-through certificate, but of a Collateralized Depository Receipt (CDR)—in essence a warehouse receipt for a GNMA. Thus the GNMA CDR futures contract not only incorporated a complicated delivery step, but also introduced an additional source of risk into the hedging of GNMAs.

A more important source of basis risk stems from the fact that the CDR contract permits delivery of any GNMA coupon. As a result, the CDR contract has frequently failed to price off of current production GNMAs.

A new futures contract—the GNMA II—has been proposed that would reduce the basis risk previously associated with hedging GNMAs.

Hedging GNMA pass-through securities

At one level, hedging GNMAs as well as other mortgage-backed securities (MBSs) involves the same considerations as hedging conventional fixed-income securities. For any given GNMA coupon, the hedge ratio (dollar value of futures relative to dollar value of hedged GNMA) can be viewed conceptually as the product of two factors.

The maturity factor relates the dollar value of a given yield change for the hedged security to the dollar value of an equivalent yield change in the futures contract. In all cases where yields on both the hedged GNMA cash investment and the GNMA coupon underlying the GNMA futures (the cheapest deliverable GNMA) could be expected to move together, the maturity factor could be used as a good first approximation of the hedge ratio. The most obvious case would be hedging the cheapest GNMA with GNMA futures.

The volatility factor is the anticipated ratio of the cash (hedged) yield change to the futures (hedge) yield change. The hedge ratio must incorporate the volatility factor whenever the yield curve is expected to shift in a nonparallel fashion over the duration of the hedge, or more generally whenever the hedged instrument is not likely to display the same yield fluctuations as the futures contract (or its underlying security).

The maturity and volatility factors are in principle two distinct steps in the hedge ratio determination process. As a practical matter, however, these two steps can generally be compressed into a one-step procedure by applying statistical regression analysis directly to the prices of the cash (hedged) instrument and the futures contract. The resultant regression coefficient can be interpreted as the hedge ratio.

GNMA principal paydown and pool speeds

At a second level, hedging mortgage-backed pass-throughs with GNMA futures involves a consideration not typically present in hedging conventional fixed-income securities: principal paydown. Principal paydown consists of two components. *Scheduled* repayments are provided for in the amortization schedules of the mortgages underlying the GNMA pass-through certificates. *Unscheduled* prepayments are due to either early retirement of mortgage debt, or default on which GNMA guarantees principal payment.

For any given GNMA pool, the amortization schedule for each mortgage remaining in the pool is known, and thus the scheduled repayment can be readily calculated. But the rate at which unscheduled prepayments occur depends on numerous factors, including the general level of mortgage rates and regional and demographic influences.

Unscheduled principal prepayments

continued

Glenn Picou is vice president of Citicorp Futures Corporation and is responsible for working with institutional clients to develop futures hedging and trading strategies. He recently served as manager of the Chicago Board of Trade's New York office. Formerly he was vice president and financial economist with Irving Trust Company.

and scheduled repayments combine to determine overall *pool speed*. There are pool speed statistics available on a regular basis that express the speed of each GNMA pool in terms of normal (historical) FHA prepayment experience. A pool experiencing no prepayments would have a 0 percent speed; a 100 percent speed pool experiences normal FHA prepayments; a 200 percent speed pool reflects twice the normal FHA experience, and so on.

Chart 1 indicates how the speed on various GNMA pools varied during 1983 and emphasizes how erratic pool speeds can be. It is the impact of unscheduled prepayments on fluctuations in pool speed that complicates the design and implementation of pass-through hedges.

Chart 1

GNMA Pool Speeds
(% of FHA Experience)

Pool Rate	Year Issued	1/83 2/83	2/83 3/83	3/83 4/83	4/83 5/83	5/83 6/83	6/83 7/83
11%	79	32	396	212	84	66	73
	80	62	40	66	68	82	80
	81	48	0	28	0	25	69
12%	80	310	146	3	98	268	176
	81	33	290	88	91	22	150
	82	73	55	39	73	89	113
12.5%	80	91	97	137	161	143	162
	81	276	66	89	135	145	148
	82	28	87	192	322	305	86
13%	81	150	138	191	180	181	174
	82	163	145	180	200	342	378
	83	—	1540	0	235	265	276
14%	81	394	375	628	638	781	589
	82	897	1395	2121	2422	2668	538
	83	—	382	285	201	4947	678
15%	81	1056	1076	1613	—	819	1147
	82	2817	3227	4854	2878	—	3443
	83	—	0	337	822	—	1287
16%	81	1835	1720	2590	3969	2372	1716
	82	4831	5558	2121	3599	2040	1478
17%	81	2171	1943	2630	4476	2676	2085
	82	2069	2632	2989	5581	2904	1350

Source: GNMA *Report, Financial Publishing Company, Boston, Massachusetts*

Pool speed and hedge design

A GNMA hedge must be designed to allow for the potential impact of pool speed on changes in *principal value* of the hedged GNMA position over the period of the hedge. If the hedge is not appropriately adjusted for declining principal value, an over-hedged position could develop, resulting in the risk that favorable rate movements would produce futures losses exceeding gains in the hedged cash position.

For example, consider a savings institution positioning $10,000,000 principal value of 15 percent GNMAs with the expectation of selling the securities one year later. It wants to hedge the position against the risk of a rate increase by selling GNMA futures. Through the statistical approach discussed above, it is determined that the hedge ratio for $1,000,000 GNMA 15s is 13.4 GNMA futures contracts, or a total of 134 GNMA futures for the $10,000,000 position.

At the time the position was established, GNMA 15s were estimated to have a pool speed of 800 percent. At that speed, the principal value of the pool would be paying down at a rate of roughly 35 percent per year, or $275,000 per month. After 12 months, the remaining principal balance would be $6,700,000; it is this amount, not $10,000,000, on which the thrift faces a loss if rates have risen, and that should determine the futures position at the *end* of the 12 month period—90 contracts (13.4×6.7 mil.) But, the full $10,000,000 must be hedged *initially* to allow for the possible need to sell the position sooner than planned. Then the hedge must be unwound as closely as possible in synchronization with the pay-down of principal. This could be accomplished, for example, by buying back 4, 4, and 3 contracts per month consecutively over each three-month period of the hedge.

Variable pool speeds

At a third level, introducing the possibility of pool speed changes significantly complicates the hedge design problem. The speed of a pool influences the location of the pool on the yield curve, and thus the dollar value of a basis point. In turn, the prospective change in market value of a hedged GNMA for a given change in rates will vary with pool speed. Such changes in speed can alter the hedge ratio in several ways: by changing the value of a basis point for the hedged GNMA; by changing the value of a basis point for the cheapest GNMA being priced by the GNMA futures contract; or by causing a change in the cheapest GNMA being priced by the GNMA futures.

As a result, GNMA hedges must be carefully monitored and the GNMA market closely followed for indications that pool speed changes are occurring that might signal the need for interim adjustments to the hedge ratio.

GNMA CDR futures: basis risk

The ability to hedge with futures depends in a critical way on a relatively stable relationship between futures and cash prices. Cash prices and futures prices tend to fluctuate together so that the difference between cash and futures, referred to as the basis, is significantly less volatile than the underlying prices themselves. The extent to

continued

which the basis is not completely stable will affect the performance of the hedge. The risk involved in hedging is called the basis risk.

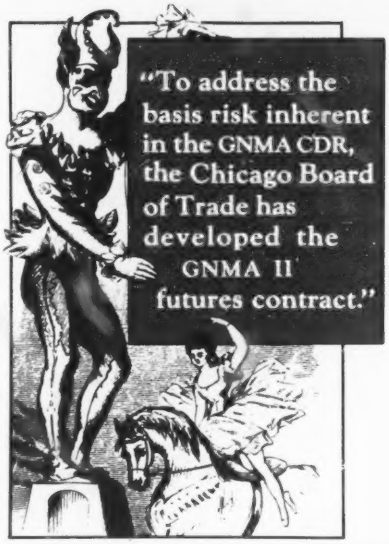
The GNMA CDR contract has been subject to periodic shifts in the basis that have heightened the basis risk and discouraged the use of GNMA CDRs as a hedging tool. In particular, GNMA CDR prices have generally been based on high coupon GNMA certificates trading at a premium. Such GNMAs tend to have high pool speeds, which in turn discourage investors from bidding the price significantly above par. Because these coupons are cheaply priced relative to current coupon GNMAs, futures buyers would be willing to pay no more than the futures equivalent of the high coupon GNMA, while futures sellers would have the incentive to sell futures until the futures price dropped to the equivalent futures price of the high coupon cash GNMA.

One problem associated with GNMA CDRs occurs when a high coupon GNMA being priced by the contract, e.g., 17s, pays down so rapidly that it becomes scarce and becomes expensive relative to a lower, but still high, coupon, e.g., 16s. In such cases there have been shifts in the cheapest GNMA that determines the price of the GNMA futures, leading to dramatic shifts in the basis that can significantly undermine a GNMA hedge program. Another factor complicating the use of the GNMA CDR as a hedge vehicle is the need to convert GNMA coupons to CDRs (the short) or CDRs to GNMAs (the long) if the futures holder goes all the way to the delivery process.

Hedging with GNMA II futures

To address the basis risk inherent in the GNMA CDR, the Chicago Board of Trade has developed the GNMA II futures contract. GNMA II is designed to price current production GNMA coupons, rather than high coupons, by the incorporation of three features.

The Delivery Window. GNMA II permits the delivery of those GNMA certificates issued at or below the current production rate in effect on the coupon determination date, the 15th of the pre-delivery month, and for the 4½ month period preceding that date. The current production rate is the maximum GNMA coupon acceptable for GNMA II multiple issuer pools as periodically announced by GNMA. The intent of this provision is to restrict the deliverable supply to those coupons relatively close to the current production rate.



"To address the basis risk inherent in the GNMA CDR, the Chicago Board of Trade has developed the GNMA II futures contract."

The Price Cap. The invoice price for any GNMA delivered into GNMA II is capped at 102.5. The effect is to discourage the delivery of high coupon certificates trading at a substantial premium.

Certificate Delivery. Because investors and hedgers might be unwilling, unable, or at least reluctant to make or take delivery of a CDR, they would price the CDR contract differently from the underlying GNMA certificates. By permitting delivery of actual GNMAs, the GNMA II eliminates the distortions introduced into the GNMA CDR basis by the requirement that delivery be made via a warehouse receipt (the CDR) issued by an exchange-approved originator.

The net result of these GNMA II contract features is to ensure that the futures contract will more closely track current coupon GNMAs. Moreover, the ability to make or take delivery in an efficient manner is a prerequisite to the convergence of cash and futures prices that is essential to an effective hedging vehicle. The new contract ensures that short hedges will be able to deliver current production GNMAs if necessary, and that the longs can be relatively certain of receiving the same.

Conversion factor pricing

The GNMA II futures contract also provides for conversion factor pricing. Because the contract is priced on the basis of an 8 percent coupon, the price of any other coupon that meets the delivery specifications must be adjusted accordingly. This is accomplished by multiplying the futures settlement price by a conversion factor, which is the price at which the delivered coupon yields 7.955 percent, equivalent to an 8 percent coupon at par as provided for in the GNMA II contract. The resultant price is the principal invoice price the long would pay to the short (in addition to accrued interest). Looked at another way, it is also the cash equivalent of the futures price:

Futures Price
(Cash Eq.)
=
Futures Price × Conversion Factor
(Contract)

It is the cash equivalent futures price that should tend to track the underlying cash GNMA (abstracting from carry considerations and expectations). Specifically, the formula indicates that changes in the futures price will tend to equal changes in the cheapest deliverable cash GNMA price divided by the factor. For coupons greater than 8 percent, the factor will exceed 1, so the futures price will tend to move by less than the underlying GNMA's price: thus the need to "ratio up" a GNMA hedge by the hedge ratio.

The GNMA II conversion factor is thus similar in concept to the conversion factor on the Chicago Board of Trade's T-Bond futures contract. Like the T-Bond contract, the GNMA II factor provides hedgers and traders alike

continued

Chart 2

Date	Cash Market	Futures Market
December 1983	Originate $10,000,000 GNMA 12.5s (Price 98–19)	Sell 134 March 1984 GNMA IIs (Price 73–00)
March 1984	Sell $10,000,000 GNMA 12.5s (Price 91–29)	Buy 134 March 1984 GNMA IIs (Price 68–00)
Gain (Loss)	($668,750)	$670,000
Net	$1,250	

Chart 3

Date	Cash Market	Futures Market
December 1983	Originate $10,000,000 GNMA 12.5s (Price 98–19)	Sell 134 March 1984 GNMA IIs (Price 73–00)
March 1984	Deliver $10,000,000 GNMA 12.5s (Cash Eq. Price 97–22)	Buy 34 March 1984 GNMA IIs (Price 69–00)
Gain (Loss)	($90,625)	$136,000
Net	$45,375	

with a convenient first approximation of the maturity factor, and in the case of hedging current production GNMAs, the hedge ratio itself.

For example, consider a mortgage banker anticipating in December 1983 a March 1984 sale of GNMA 12.5s, which in December was the current production rate. The March sale is to be hedged using GNMA II futures. From the GNMA II factor tables, the conversion factor of 1.33806 is obtained, indicating a hedge ratio of 1.34 contracts per $100,000, or 134 contracts per $10,000,000.

At the time the hedge is initiated, the GNMA 12.5s are trading at 98–19; March 1984 GNMA IIs are trading at 73–00. In March, the general level of rates has risen, and GNMA 12.5s prices have fallen to 91–29. At the same time, GNMA II futures have fallen to 68–00. The net result of the hedged transaction is shown in Chart 2.

The results in Chart 2 are hypothetical and based on a constant basis (29/32s) over the duration of the hedge. In reality, the basis is unlikely to remain unchanged. Suppose, for example, that the rise in GNMA rates was accompanied by an inversion of the yield curve (from positively to negatively sloped). In this case the basis would weaken considerably with GNMA futures moving to a premium over cash (on a cash equivalent basis), with futures going instead to 69–00 rather than 68–00. In this situation, the results of the hedge would be much different; futures would show a gain of only $536,000, resulting in a net loss on the total transaction of $132,700.

Going to delivery

To illustrate the role of the delivery process, we have chosen the GNMA sale date to coincide with the March 1984 expiration date of the GNMA II contract. In the situation above, where the hedge was adversely affected by the weakening of the basis, the banker has the option of making delivery of the GNMA 12.5s into the GNMA II contract. Because each contract calls for delivery of $100,000 principal value, the banker would have to make sure to liquidate (buy back) the extra 34 contracts prior to the actual expiration date of the contract; the $10,000,000 in GNMA 12.5s would be delivered into the remaining 100 contracts. (See Chart 3.)

This is clearly unlikely to happen. The 69–00 GNMA futures price is equivalent to a 92–10 cash price, compared with an actual cash price of 91–29. The futures are thus quite expensive to cash, presenting an arbitrage opportunity for traders to buy GNMA 12.5s and sell GNMA II futures as the delivery date approaches.

This would tend to push cash prices up and futures down to the point where few arbitrage opportunities would remain. At that point, it would be much easier to unwind the futures position and sell the GNMA 12.5s into the market. Even a hedge unwound prior to delivery may not be as effective as in the original case, of course, because some deterioration in the basis must occur due to the yield curve inversion. However, it should be clear that there will rarely be much of an incentive actually to deliver. On the other hand, it is also clear that the ability to deliver is crucial to keeping the basis relationship in line.

Futures hedging techniques have been illustrated that take into account the principal paydown features of MBSs. Moreover, the GNMA II futures contract is designed to overcome a number of technical factors that contribute to GNMA CDR basis risk and discouraged potential hedgers from using GNMA futures. More and more sophisticated programs for the evaluation and management of basis risk are being developed as well. So, despite the special considerations involved in hedging MBSs that have been discussed in this article, interest rate futures represent a valuable tool for firms involved in the origination, positioning, trading, and funding of these instruments.

Futures are not, of course, a panacea for the financial risks faced by firms with significant interest rate exposure. Rather, they are to be viewed as one of a broadening array of risk management tools, including fixed-income options (exchanged-traded and over-the-counter), forwards, standbys, swaps, and other fixed-rate credit products. ☐

continued from page 23

year eight, while the fraction prepaying under the CPP model remains constant. Consequently, the cashflow under the FHA model is lower than the CPP cashflow initially, and the outstanding balance is higher initially. With other mortgage mortality experience or at other points in the pool life cycle, this relationship may not hold.

Although the CPP model gives a slightly different picture, the result would appear to be within the limits of the accuracy of the underlying FHA mortality data. In model building, it is easy to lose sight of the inaccuracy of assumptions. The FHA mortality table is not a "perfect" measure of any actual pool's prior history; it is an aggregate of historical data of different mortgage interest rates at different origination dates. The mathematics of the model treat this data as if it were perfect, and would allow the computation of cashflows, prices, and yields of unlimited accuracy. The implicit errors in the assumptions do not allow extreme accuracy; precise computations beyond the precision of the data are all fantasy.

Figure 14 plots the equivalence between the percent FHA experience and CPP for various yields. In other words, 100 percent FHA experience is equivalent to a 5.4 percent CPP at a 6 percent yield, but is equivalent to a 4.8 percent CPP at an 18 percent yield. If the FHA method and CPP method were exactly equivalent, this plot would be a series of perpendicular vertical lines parallel to the 0 percent line. The close equivalence is evidenced by how nearly straight and vertical they actually are.

Figure 14:
Equivalent CPPs for Various FHA Experience Percents

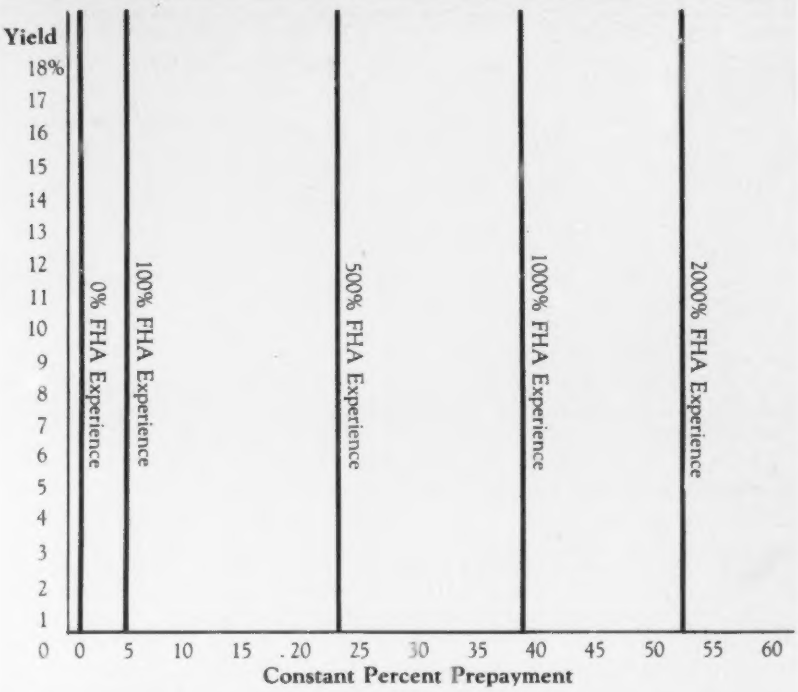


Figure 15:
Price given Yield under Model 1— 30 Years, no Prepayment

	Net Pool Rate (Gross Rate – ½% Service)		
Yield	**8%**	**12%**	**16%**
6%	122.29	171.58	224.23
7	110.06	154.48	201.92
8	99.67	139.94	182.95
9	90.79	127.50	166.72
10	83.15	116.81	152.76
11	76.54	107.56	140.68
12	70.80	99.51	130.17
13	65.77	92.46	120.97
14	61.35	86.27	112.87
15	57.44	80.79	105.71
16	53.97	75.92	99.35
17	50.87	71.57	93.66
18	48.09	67.66	88.56

Figure 16:
Price given Yield under Model 2—30 Years Prepaid in 12

	Net Pool Rate (Gross Rate – ½% Service)		
Yield	**8%**	**12%**	**16%**
6%	115.87	149.47	193.82
7	107.37	139.04	171.51
8	99.67	129.58	160.30
9	92.70	120.97	150.09
10	86.37	113.14	140.77
11	80.63	106.01	132.27
12	75.41	99.51	124.49
13	70.66	93.57	117.37
14	66.33	88.14	110.84
15	62.38	83.18	104.85
16	58.78	78.63	99.35
17	55.48	74.45	94.28
18	52.46	70.61	89.62

Trading under the models: yield and price comparisons

The ultimate point of any of these models is to develop fair trading relationships for buyers and sellers. For the sake of simplicity, let us investigate the three situations we looked at previously: 8 percent, 12 percent, and 16 percent 30-year securities. Figure 15 shows the price given the yield for a range of rates. Because GNMA yields and prices are being related, the rate shown is the net interest rate; the gross interest rate of the underlying mortgage is .5 percent higher because of service. In addition, there is assumed to be a 45-day interval to the receipt of the first payment, consistent with GNMA I.

It is clear from the figures that model 2 imputes a faster payoff than model 1. At a fixed discount price, the yield resulting from model 2 is better than the yield from model 1, but at a premium price the opposite would be true. Models 3 and 4 both offer the advantage of representing a whole range of

continued

Figure 17:
Price given Yield under Model 3 FHA Experience for a Pool at 8% Net Rate

Yield	1000% FHA	200% FHA	100% FHA	0% FHA
6.00	104.60	111.14	114.84	122.29
7.00	102.09	105.14	106.80	110.06
8.00	99.67	99.67	99.67	99.67
9.00	97.33	94.67	93.32	90.79
10.00	95.08	90.08	87.65	83.15
11.00	92.90	85.85	82.54	76.54
12.00	90.79	81.95	77.94	70.80
13.00	88.75	78.35	73.77	65.77
14.00	86.78	75.00	69.98	61.35
15.00	84.87	71.89	66.51	57.44
16.00	83.03	69.00	63.34	53.97
17.00	81.24	66.30	60.43	50.87
18.00	79.52	63.77	57.75	48.09

Figure 18:
Price given Yield under Model 3 FHA Experience for a Pool at 12% Net Rate

Yield	1000% FHA	200% FHA	100% FHA	0% FHA
6.00	114.41	134.88	146.86	171.58
7.00	111.70	127.58	136.50	154.48
8.00	109.09	120.94	127.33	139.94
9.00	106.57	114.88	119.19	127.50
10.00	104.14	109.32	111.91	116.81
11.00	101.78	104.21	105.39	107.56
12.00	99.51	99.51	99.51	99.51
13.00	97.31	95.16	94.19	92.46
14.00	95.18	91.13	89.36	86.27
15.00	93.12	87.39	84.95	80.79
16.00	91.13	83.90	80.92	75.92
17.00	89.20	80.65	77.23	71.57
18.00	87.33	77.61	73.83	67.66

Figure 19:
Price given Yield under Model 3 FHA Experience for a Pool at 16% Net Rate

Yield	1000% FHA	200% FHA	100% FHA	0% FHA
6.00	124.28	159.23	180.19	224.23
7.00	121.38	150.63	167.44	201.92
8.00	118.58	142.81	156.17	182.94
9.00	115.88	135.68	146.17	166.72
10.00	113.28	129.15	137.25	152.76
11.00	110.76	123.15	129.25	140.68
12.00	108.32	117.63	122.05	130.17
13.00	105.97	112.53	115.55	120.97
14.00	103.69	107.81	109.64	112.87
15.00	101.48	103.43	104.26	105.71
16.00	99.35	99.35	99.35	99.35
17.00	97.28	95.54	94.84	93.66
18.00	95.28	91.99	90.69	88.56

Figure 20:
Price given Yield under Model 4 CPP for a Pool at 8% Net Rate

	Anticipated Constant Percent Prepayment			
Pool Yield	25.00%	10.00%	5.00%	0.00%
6.000	105.983	111.156	115.138	122.300
7.000	102.731	105.120	106.912	110.069
8.000	99.668	99.669	99.671	99.676
9.000	96.778	94.727	93.266	90.791
10.000	94.047	90.230	87.573	83.152
11.000	91.463	86.123	82.487	76.546
12.000	89.015	82.359	77.925	70.800
13.000	86.691	78.899	73.814	64.773
14.000	84.483	75.709	70.094	61.353
15.000	82.383	72.760	66.715	57.445
16.000	80.382	70.025	63.634	53.972
17.000	78.474	67.484	60.816	50.871
18.000	76.653	65.116	58.229	48.089

Figure 21:
Price given Yield under Model 4 CPP for a Pool at 8% Net Rate

	Anticipated Constant Percent Prepayment			
Pool Yield	25.00%	10.00%	5.00%	0.00%
6.000	118.750	135.074	147.955	171.587
7.000	115.054	127.588	137.205	154.481
8.000	111.576	120.841	127.761	139.940
9.000	108.298	114.736	119.422	127.507
10.000	105.204	109.190	112.021	116.813
11.000	102.278	104.134	105.421	107.561
12.000	99.507	99.508	99.508	99.510
13.000	96.879	95.261	94.188	92.467
14.000	94.385	91.352	89.380	86.270
15.000	92.013	87.742	85.019	80.790
16.000	89.755	84.399	81.047	75.919
17.000	87.603	81.295	77.418	71.568
18.000	85.550	78.406	74.089	67.665

Figure 22:
Price given Yield under Model 4 CPP for a Pool at 16% Net Rate

	Anticipated Constant Percent Prepayment			
Pool Yield	25.00%	10.00%	5.00%	0.00%
6.000	131.674	159.724	182.254	224.237
7.000	127.545	150.767	168.886	201.921
8.000	123.662	142.706	157.156	182.948
9.000	120.004	135.420	146.808	166.721
10.000	116.553	128.809	137.634	152.761
11.000	113.291	122.788	129.461	140.681
12.000	110.203	117.285	122.145	130.168
13.000	107.277	112.238	115.568	120.968
14.000	104.499	107.595	109.630	112.873
15.000	101.859	103.311	104.246	105.713
16.000	99.346	99.347	99.347	99.348
17.000	96.953	95.669	94.872	93.662
18.000	94.670	92.247	90.772	88.559

pool behavior and thus can be applied more precisely than models 1 and 2. In addition, model 4 offers the use of a single parameter that is appealing.

Best model: CPP

Constant Percentage Prepayment offers a new and attractive model for pricing GNMA securities. It gives a much more realistic method of establishing the price of the pool than the prepaid at a specific period assumption (model 2) but is more straightforward and easier to envision than the FHA experience assumption (model 3).

The FHA experience assumption model (model 3) suffers from a number of well-known deficiencies. First, FHA has aggregated all of its experience into a single mortgage mortality table. This table joins together new and old mortgages at high and low rates. Why should any particular pool follow this average?

Recently new types of pools have arisen. These include pools originated by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. They lack even the homogeneity of GNMA II. They include a pooling of different mortgage interest rates, service interest rates, and original terms. While it is conceptually possible to apply the FHA experience concept, to do so encounters practical difficulties and may develop wrong impressions. The CPP methodology handles these new pools in stride.

Using the CPP model can revolutionize the pricing of GNMA pools and other mortgage-backed securities. ☐

Editor's Note: To assist in the use of this type of pricing, Financial Publishing Company is preparing three new publications:

1. *Financial Constant Percent Prepayment Mortgage Yield Table.*
2. *Financial Constant Percent Prepayment GNMA Yield Table.*
3. *Financial Constant Percent Prepayment FHLMC Yield Table.*

In addition, Financial Publishing has expanded the coverage of the GNMA Report to include statistical data involving Constant Percent Prepayment as well as the current statistics on FHA experience.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

As 1984 gets under way, many questions arise about the role of housing in this the second year of the recovery cycle. 1983 was a strong year for housing. In fact, the housing sector of the economy was responsible for a large part of the growth in the Gross National Product (GNP). The housing recovery actually began in the latter half of 1982 as rates fell and lenders were inundated with borrowers seeking to refinance their high-rate mortgages. As 1983 unfolded and the refinancing activity died down, originations of new loans soared. Housing starts, new home sales, and existing home sales shook off the recession of 1981 and 1982, expanding by 50 percent or more from the 1982 levels.

Housing starts for 1983 will finish the year at about 1.7 million units; existing home sales at about 2.7 million units; and new home sales at about 630,000 units. Our forecast for the housing market of 1984 is a relatively stable one. We feel housing starts will increase to 1.8 million units, with similar increases for existing and new homes sales. Long-term mortgage yields will move down slightly in the first two quarters of 1984 to a low point of 11.5 percent. In the third and fourth quarters we will see a drift upward in mortgage rates to the 12.5 to 13 percent range. The increasingly popular adjustable rate mortgage (ARM) could reach a low first-year rate of 10.5 percent in the first half of 1984.

Traditionally, in the second year of a recovery, housing exceeds its performance of the first year with more starts and more sales. There are many reasons why this will not occur in 1984.

Perhaps the most pervasive and the least readily evident are the fundamental changes that have taken place in the mortgage and housing markets. A direct result of deregulation has been the positioning of the mortgage credit markets in direct competition with Treasury offerings and other long-term fixed investments. Portfolio lenders can no longer function in this newly competitive market. In order to minimize interest rate risk and ensure a steady supply of funds, traditional portfolio lenders are functioning as mortgage bankers always have—they are selling the loans they originate to investors.

By eliminating the shelter that mortgage credit markets have always enjoyed, deregulation has forced these markets to face the same problems as other credit market participants, not the least of these being fiscal policy and inflation fears. Over the past year, these two factors have been integral in influencing the course of interest rates. These factors will figure prominently in investors' minds in 1984 as well.

The ramifications for borrowers are just as revolutionary as they are for lenders. Few households can afford the type of housing they expected to be able to purchase because of the new mortgage market climate. Borrowers are learning to accept much smaller housing units and are willing to accept ARMs simply because it is the only way to qualify for a loan. With little movement in mortgage rates expected in 1984, borrowers will become used to the 12-13 percent range of rates and make the budgetary adjustments necessary to compete in the market.

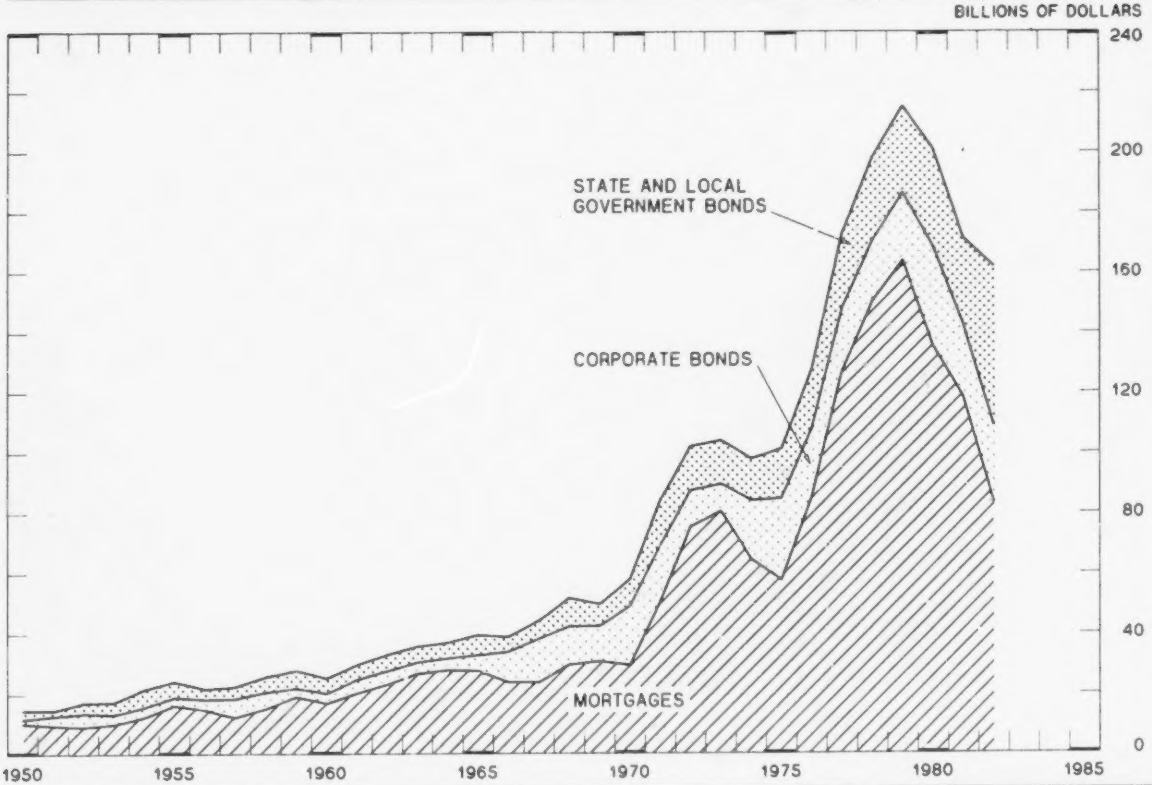
1984 will be a year of adjustment for housing. Against the backdrop of stability, borrowers will learn to accept the high rates now inherent in the market and the wide variety of instruments now available to choose from. Lenders can consolidate their strong positions coming out of 1983 and begin to explore new markets and opportunities as they too become seasoned players in the newly competitive markets.

Deborah Whiteside
Assistant Economist

LONG-TERM BORROWING

PRIVATE DOMESTIC NONFINANCIAL SECTORS

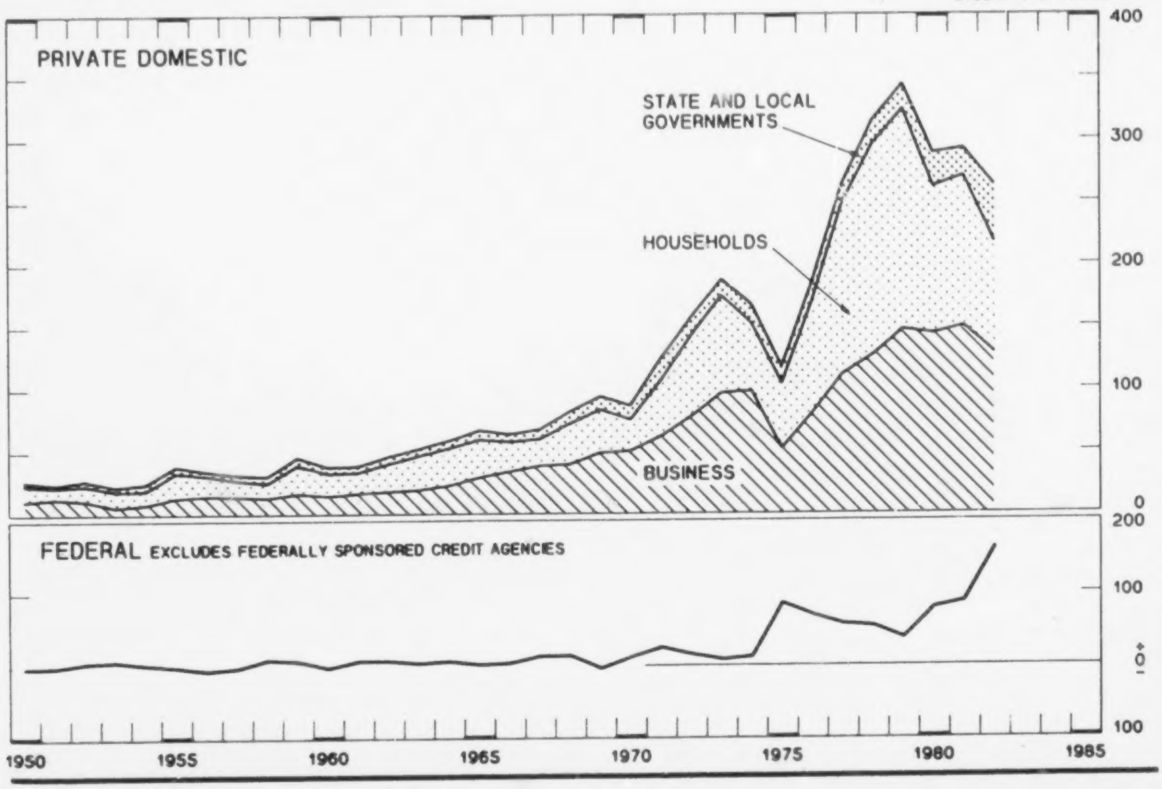
ANNUALLY



NET FUNDS RAISED

MAJOR NONFINANCIAL SECTORS

ANNUALLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—FEBRUARY 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	[illegible]	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	[illegible]	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,904	1,245	659
SEP	148	90	58	1,506	967	539	155	108	47	1,664	1,148	516
OCT	140	87	53	1,630	1,022	608	159	102	57	1,650	1,103	547
NOV	125p	79p	46p	1,650p	1,057p	593p	137p	94p	43p	1,756p	1,226p	530p
11 months												
1983	1,484	959	524				1,597	1,115	482			
1982	894	571	324				983	687	296			
1981	711	621	90				1,022	760	262			
1980	1,083	759	325				1,194	894	300			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,[illegible]82	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,110	66,374	25,807	58,929
NOV	153,041p	65,283p	25,832p	61,926p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	51	288	5.9
AUG	280	50	296	6.5
SEP	240	49	299	6.6
OCT	224	52	301	5.8
NOV	204p	46p	308p	5.9p
11 months				
1983	2,541	577		
1982	1,794	380		
1981	2,224	402		
1980	2,694	502		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	22	25	92	38	190	246	1,024	444
SEP	18	21	73	36	176	177	765	388	15	23	83	34	132	225	932	375
OCT	15	20	72	33	159	195	878	398	16	23	87	33	156	195	941	358
NOV	12p	16p	68p	29p	148p	193p	899p	410p	14p	18p	75p	30p	161p	211p	948p	436p
11 months																
1983	152	178	796	359					159	207	877	357				
1982	101	111	486	196					107	141	550	183				
1981	103	125	449	234					106	157	530	225				
1980	106	163	513	294					114	203	599	282				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,028	635	393	133	99	34
OCT	1,033p	627p	406p	152p	109p	43p
NOV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11 months						
1983				n.a	n.a.	n.a.
1982				909	661	267
1981				1,151	848	304
1980				1,369	971	398

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS ALL TYPES	FNMA Mandatory Delivery Yields		GNMA Current Securities Yield	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey												
	FHA New	Conventional New	Conventional Existing	Conventional New	Conventional Existing			ARM (5 yr Treas)	Conv		Aaa Utility New Issue	U.S. Gov't. 10-yr	U.S. Gov't. 26-wk	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
1982																
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.27	12.37	14.15	n.a.	12.787	13.012	12.62	n.a.	11.69	8.93	9.10	n.a.	93

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidental				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
JUN	10,882	2,530	4,041	3,826	485	7,463	2,160	3,258	1,995	50	637	130	271	223	13	2,782	240	512	1,608	422
JUL	10,164	2,230	3,427	3,661	846	6,981	1,950	2,922	2,049	60	481	50	206	177	48	2,702	230	299	1,435	738
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,531	4,670	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	~~Banks[8]~~	~~Life Cos.~~	~~Total~~	~~Mtg. Bankers~~	S&Ls	Banks[8]	Life Cos.
1982										
MAY	48,565	8,260	17,362	12,345	10,598	8,890	3,380	3,350	1,627	533
JUN	48,130	8,100	17,327	12,543	10,160	8,105	2,560	3,597	1,648	300
JUL	48,616	8,500	16,951	13,436	9,729	8,461	2,700	3,537	1,679	545
AUG	49,495	9,050	17,748	13,192	9,505	8,946	3,050	3,847	1,615	434
SEP	50,444	9,800	18,241	13,108	9,295	10,089	4,240	3,888	1,466	495
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	~~16,320~~	~~21,548~~	~~14,267~~	~~9,620~~	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,846	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	78,074	14,050	38,562	13,495	11,967	20,644	4,900	10,895	3,454	1,395
OCT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	124	7,730	25	1,340	30	1,934	69	4,456

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	2,181	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	664	750	2,382	2,598	2,886	2,758	3,891	3,808

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
MAR	90	50	10	30	50	480	90	60	330
APR	240	50	50	140	70	490	90	140	260
MAY	90	30	20	40	50	620	80	160	380
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	70	50	440	100	60	280
OCT	120p	50p	20p	50p	90p	130p	80p	130p	120p

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED								
						1-4 Units				5+ Units			
Year and Month	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
NOV	1,890	1,520	40	330	1,820	1,430	400	290	740	40	10	30	350
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	1,590	1,150	130	380	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,310	140	210	1,400	1,030	370	200	460	140	70	70	230
MAR	2,380	1,800	100	430	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,790	80	300	1,940	1,550	450	250	850	80	20	60	310
MAY	2,350	1,820	260	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,550	2,110	110	300	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,170	1,730	50	280	2,230	1,950	610	370	970	50	50	0	230
AUG	2,040	1,860	70	320	2,450	2,130	720	420	990	70	10	60	250
SEP	1,960	1,820	30	140	2,280	2,090	700	490	900	50	10	40	140
OCT	2,470	1,890	510	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,370	2,950	200	260	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,270	3,870	130	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,230	4, 30	580	270	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,060	170	270	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,730	5,780	80	800	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,850	5,520	900	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,280	5,190	530	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,160	5,800	790	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,650	4,830	30	410	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	4,780	4,360	230	640	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	3,850	3,190	140	590	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	3,580p	2,940p	270p	420p	4,130p	3,560p	1,080p	720p	1,760p	170p	0p	170p	400p

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981														
NOV	1,920	1,320	180	420	4,250	1,490	190	2,570	3,720	390	640	4,170	610	1,150
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,011	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	4,990p	4,760p	0p	230p	5,900p	5,550p	160p	190p	12,160p	3,220p	880p	9,740p	4,550p	850p

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[a]			SERVICING VOLUME		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981															
NOV	3,580	2,220	480	340	1,400	570	60	510	790	70	64	80	188,070	19,880	37,990
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,010p	6,600p	1,730p	1,480p	3,390p	3,440p	100p	3,340p	970p	52p	68p	46p	272,820p	44,890p	33,630p

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1981														
NOV	190	70	40	80	40	380	110	50	220	3,960	1,000	1,030	1,930	870
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	120p	50p	20p	50p	90p	330p	80p	130p	120p	3,150p	960p	410p	1,780p	730p

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
NOV	1,050	120	520	410	6,120	750	1,770	3,600	10,870	1,680	5,270	3,920
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	240	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,720	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,800	3,110	9,820	28,870
OCT	1,510p	120p	830p	560p	10,460p	900p	7,260p	2,300p	43,760p	2,780p	9,230p	31,750p

MORTGAGE BANKING

MARCH 1984

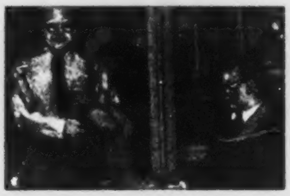
The Magazine of Real Estate Finance

3/20/84
A6450-2

56219 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST-WEST HGWY. SITE 200
BETHESDA, MD 20814

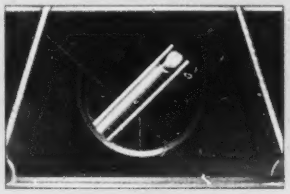
MORTGAGE
BANKING

Volume 44 No. 6
March 1984



20 Residential Mortgages

28 Title Insurers



86 Equal Enters The Market

Certified Mortgage Bankers Discuss Loan Production 11

Residential Mortgages: Lining Up the Customers 20
James F. Aylward, CMB

New Routes for Title Insurers 28
John Goode and Russell W. Jordan, III

Optimistic Pattern for the 1980s 50
James L. Palda, Jr.

Computerized Pricing for the Secondary Market 61
William C. Weaver and Joseph D. Albert

Splitting the Risk in Rental Housing 71
Kenneth A. Puller

Balancing the Scale: EQUAL™ Enters the Market 86
Roger L. Earnhardt and Diane L. Cortes

About This Issue 5
People 101
Books 114
Classified Advertisements 118
Advertisers Index 120
Mortgage Market Trends 123

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Photograph by: Deborah Albers

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

February 8, 1984

With the introduction of the President's Fiscal Year (FY) 1985 budget one week ago, it is becoming clear that our political leaders do not plan to deal with the Federal budget deficit before election day. The budget document would set FY85 spending at $925.5 billion and receipts at $745.1 billion. The result would be a budget deficit of $180.4 billion, essentially the same as the shortfall expected for the current Fiscal Year. Although the proposed budget does include some modest measures to increase revenues and reduce outlays over the next few years, the projected deficits remain near $180 billion through 1987. The really bad news is that even this near record high level of deficit spending probably is not achievable with this budget, because the assumptions underlying the fiscal plan are overly optimistic. Specifically, the budget is based on short-term interest rates declining to near 6 percent by 1987 while the economy continues to grow 4 percent per year in real terms. The problem is that the massive amount of Government borrowing needed to finance deficits ultimately will push up interest rates and turn the economy toward recession.

Recognizing the problem of deficits, the President has called for bipartisan negotiations to work out a $100 billion, three-year "downpayment" on deficit reduction. The negotiations begin today, but there appears to be little common ground among the participants. The Treasury Department is working concurrently on a study designed to propose a more efficient and equitable tax system. This effort could lead to a proposal along the lines of a flat rate tax, but no report is expected before the elections.

Congressional Budget Office Director Rudolph G. Penner has just released his analysis of the Administration budget proposal. He estimates that the proposed budget would lead to a FY 1989 deficit of $326 billion, almost three times the Administration figure. Federal Reserve Chairman Paul A. Volcker testified before Congress yesterday that the levels of deficit spending envisioned would inflict long-term damage on the economy, as he called for rapid enactment of a $50 to $75 billion per year reduction in the deficit.

The effects of postponing action to control Federal deficits could be felt as early as this summer or as late as next spring. Credit market conditions will improve slightly through the spring due to a temporary softening in the demand for credit and no change in the monetary policy of the Federal Reserve. Business credit demand is relatively weak because strong profits are allowing much needed investment to be financed internally. Government borrowing will drop to only $35 billion in the second quarter due to the favorable timing of maturing debt that must be refinanced. If the economic recovery continues at the expected 4 to 5 percent annual rate, credit market conditions could begin to worsen by the third or fourth quarter. Government borrowing will reach $100 billion between July and December, and business credit needs will begin to outstrip retained earnings so that commercial and industrial loans will be growing. If these developments occur without some Congressional effort to reduce future deficits, the financial markets will expect either higher interest rates or higher inflation. The result will be rising interest rates, possibly even before election day. This outcome would slow economic growth and increase the risk of a recession early next year.

The only good news in this scenario is that a bout of rising interest rates would put significant pressure on Congress to cut spending and raise tax revenue. The last example was in 1982 when the $98 billion "tax enhancement" bill was passed and signed shortly before the Congressional elections.

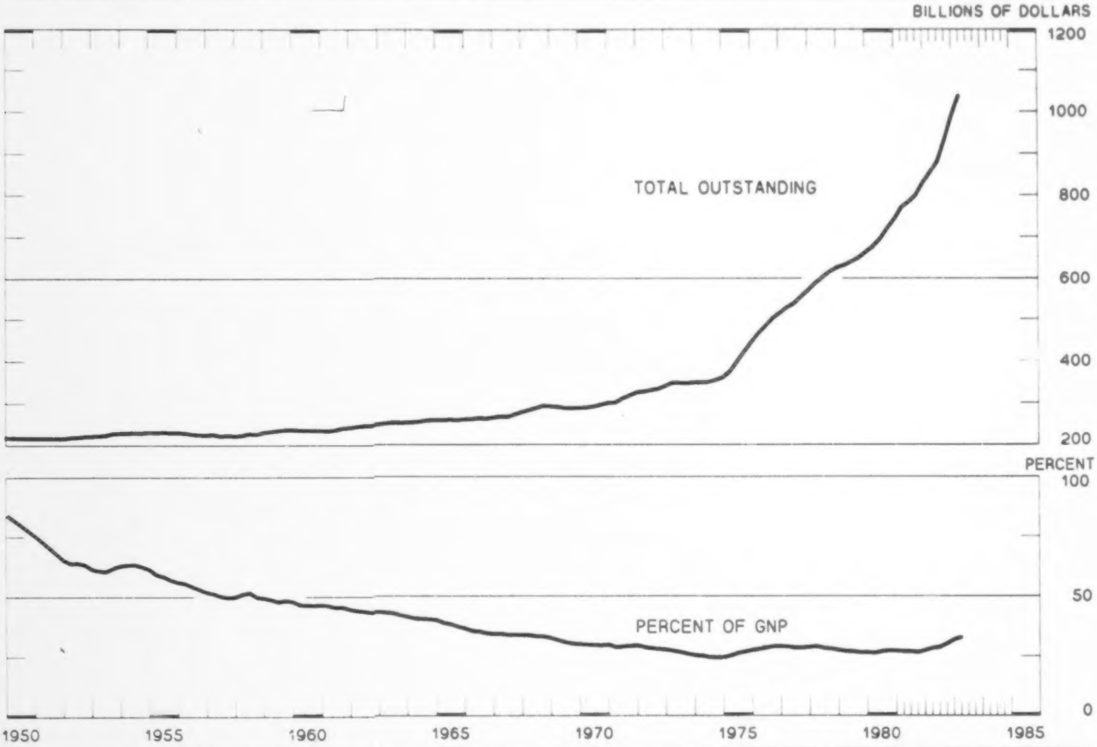
President Reagan and his advisors have said that they plan to offer significant budget initiatives next year, after the national elections. If these initiatives come forward in a rising interest rate environment, there will be a strong bandwagon effect to act quickly, and this turn of events could be significant for the real estate finance industry. Such efforts would focus on tax changes that could raise large amounts of revenue, and adequate time for careful study of such proposals might not be available.

Among the items that could be part of a major tax bill could be less favorable depreciation for real estate, a limit on the deduction of home mortgage interest, and limits on opportunities for syndication of real estate projects. This prospect provides all the more reason for continued pressure to make significant progress on the budget deficit now, before rising interest rates force precipitous action later.

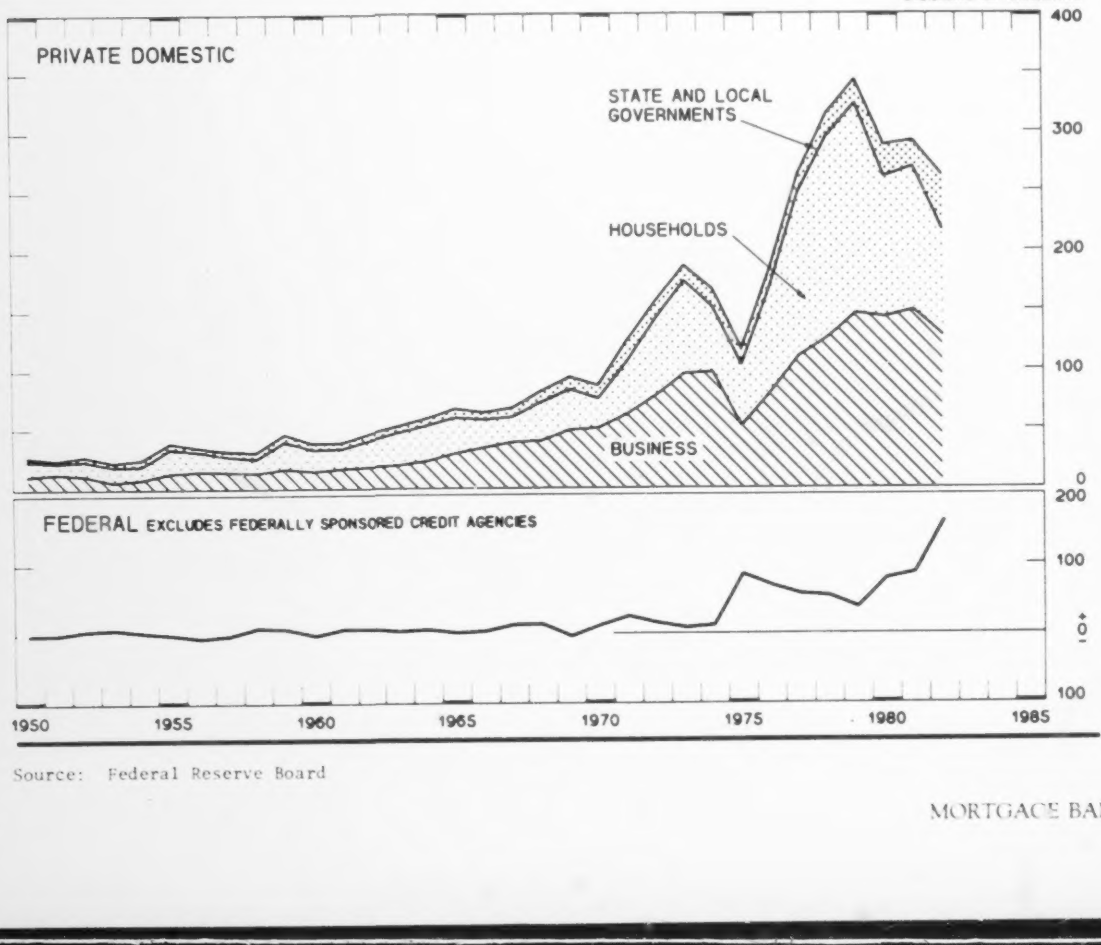
Dr. Warren Matthews
Senior Economist

NET FEDERAL DEBT

AMOUNT OUTSTANDING; END OF YEAR, 1950-51; SEASONALLY ADJUSTED, END OF QUARTER, 1952-



NET FUNDS RAISED
MAJOR NONFINANCIAL SECTORS
ANNUALLY



Source: Federal Reserve Board

MORTGAGE MARKET TRENDS—MARCH 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,904	1,245	659
SEP	148	90	58	1,506	967	539	155	108	47	1,664	1,148	516
OCT	140	87	53	1,630	1,022	608	159	102	57	1,654	1,092	562
NOV	125	79	46	1,642	1,053	589	137	94	43	1,755	1,230	525
DEC	111p	67p	44p	1,605p	1,070p	535p	108p	69p	39p	1,667p	1,123p	544p
12 months												
1983	1,595	1,026	568				1,705	1,184	522			
1982	973	887	375				1,062	746	319			
1981	969	657	314				1,086	798	289			
1980	1,170	814	356				1,292	961	331			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,375	65,488	26,525	62,362
DEC	155,406p	64,849p	27,064p	63,493p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	51	288	5.9
AUG	280	50	296	6.5
SEP	240	48	302	6.7
OCT	224	51	304	5.9
NOV	202	45	314	6.0
DEC	178p	50p	308p	4.5p
12 months				
1983	2,717	624		
1982	1,939	412		
1981	2,346	430		
1980	2,881	535		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	22	25	92	38	190	246	1,024	444
SEP	18	21	73	36	176	177	765	388	15	23	83	34	132	225	932	375
OCT	15	20	72	33	159	195	878	398	16	23	87	33	161	194	936	363
NOV	13	16	68	29	150	187	907	398	14	18	75	30	159	214	953	429
DEC	11p	11p	56p	33p	170p	208p	772p	455p	9p	10p	63p	26p	147p	197p	954p	369p
12 months																
1983	164	189	852	392					168	217	940	383				
1982	111	116	643	213					114	148	595	203				
1981	110	132	482	246					114	164	563	237				
1980	118	186	558	312					124	217	651	300				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,029	622	407	152	110	42
NOV	1,041p	622p	419p	126p	95p	31p
DEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12 months						
1983				n.a.	n.a.	n.a.
1982				1,004	740	294
1981				1,062	783	280
1980				1,496	1,067	429

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[3] ALL TYPES	FNMA		GNMA Current Securities Yield[2]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[1]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.24	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.62	13.64	12.45	12.43	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidental				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
JUN	10,882	2,530	4,041	3,826	485	7,463	2,160	3,258	1,995	50	637	130	271	223	13	2,782	240	512	1,608	422
JUL	10,164	2,230	3,427	3,661	846	6,981	1,950	2,922	2,049	60	481	50	206	177	48	2,702	230	299	1,435	738
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,065	4,130p	8,586	7,121	1,228	14,857	3,560p	6,823	4,427	47	1,501	170p	759	410	162	4,707	400p	1,004	2,284	1,019

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
JUN	48,130	8,100	17,327	12,543	10,160	8,105	2,560	3,597	1,648	300
JUL	48,616	8,500	16,951	13,436	9,729	8,461	2,700	3,537	1,679	545
AUG	49,495	9,050	17,748	13,192	9,505	8,946	3,050	3,847	1,615	434
SEP	50,444	9,800	18,241	13,108	9,295	10,089	4,240	3,888	1,466	495
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,846	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,620	25,890p	38,417	13,721	11,592	16,854	5,370p	9,484	2,940	1,060
NOV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131p	51p	80	131p	7,980p	34p	1,772p	25	1,598	72	4,610

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	2,181	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	664	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	780	381	1,596	2,093	1,287	1,139	4,201	3,857

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					Construction Loans Closed			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
APR	240	50	50	140	70	490	90	140	260
MAY	90	30	20	40	50	620	80	160	380
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	70	50	440	100	60	280
OCT	120p	50p	20p	50p	90p	330p	80p	130p	120p
NOV	160p	80p	10p	70p	90p	390p	150p	120p	120p

---

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED								
						1-4 Units				5+ Units			
Year and Month	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1981													
DEC	2,290	1,660	170	280	2,530	1,800	600	390	810	190	0	190	540
1982													
JAN	1,590	1,150	130	380	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,310	140	210	1,400	1,030	370	200	460	140	70	70	230
MAR	2,380	1,800	100	430	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,790	80	300	1,940	1,550	450	250	850	80	20	60	310
MAY	2,350	1,820	160	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,550	2,110	110	300	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,170	1,730	50	280	2,230	1,950	610	370	970	50	50	0	230
AUG	2,040	1,860	70	320	2,450	2,130	720	420	990	70	10	60	250
SEP	1,960	1,820	30	140	2,280	2,090	700	490	900	50	10	40	140
OCT	2,470	1,890	510	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,370	2,950	200	260	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,270	3,870	130	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,230	4,350	580	270	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,060	170	270	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,730	5,780	80	800	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,850	5,520	900	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,280	5,190	530	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,160	5,800	790	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,650	4,830	30	410	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	4,780	4,360	230	640	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	3,850	3,190	140	590	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	3,580p	2,940p	270p	420p	4,130p	3,560p	1,080p	720p	1,760p	170p	0p	170p	400p
NOV	5,200p	4,700p	100p	470p	5,000p	4,410p	1,270p	820p	2,320p	100p	30p	70p	400p

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981														
DEC	3,150	2,370	170	610	2,470	2,020	160	290	5,890	950	600	4,780	1,240	710
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1 630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,011	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	4,990p	4,760p	0p	230p	5,900p	5,550p	160p	190p	12,160p	3,220p	880p	9,740p	4,550p	850p
NOV	6,040p	4,600p	800p	640p	4,470p	2,940p	940p	590p	11,740p	1,440p	1,130p	8,850p	2,390p	990p

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1981															
DEC	4,330	2,280	470	320	1,490	1,230	160	1,070	820	59	57	50	212,560	22,750	39,210
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,010p	6,600p	1,730p	1,480p	3,390p	3,440p	100p	3,340p	970p	52p	68p	46p	272,820p	44,890p	33,630p
NOV	10,890p	6,430p	1,750p	1,360p	3,320p	3,240p	0p	3,240p	1,220p	49p	51p	42p	254,880p	43,680p	33,640p

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1981														
DEC	180	70	40	70	70	990	590	130	270	4,240	1,020	1,120	2,100	900
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	120p	50p	20p	50p	90p	330p	80p	130p	120p	3,150p	960p	410p	1,780p	730p
NOV	110p	50p	50p	10p	90p	160p	80p	10p	70p	3,500p	1,100p	390p	2,010p	740p

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1981												
DEC	1,920	140	1,310	470	7,480	770	2,910	3,800	10,960	1,160	5,710	4,090
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,510p	120p	830p	560p	10,460p	900p	7,260p	2,300p	43,760p	2,780p	9,230p	31,750p
NOV	1,770p	130p	890p	750p	8,480p	1,270p	3,960p	3,250p	30,450p	3,500p	10,360p	16,590p

MORTGAGE BANKING

The Magazine of Real Estate Finance

4/10/87
A6450-2

56217 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST-WEST HWY. SUITE 200
BETHESDA, MD 20814

MORTGAGE
BANKING

Volume 44 No. 7
April 1984

16 Free FHA

26 Computer Age

84 Premium Plan Premiere

Interview with Robert J. Mylod 10

Market Impact of a Free FHA Rate
Dr. Thomas R. Harter 16

Special Section

Computer Age Evolution
Suzanne C. Samson 26

Emergence of Rapid Response
Christopher J. Green 41

Strategy for Survival
Gerry C. Nelson 53

Automation as a Competitive Weapon
Dorothy E. Trefts 63

Support for Pricing Decisions Part II
William C. Weaver and Joseph D. Albert 73

Single Premium Plan Premiere
Thomas N. Herzog 84

The Last Word (Moving Beyond Tradition)
Laurence A. Waters 94

About This Issue 5
People 101
Books 112

Advertisers Index 119
Mortgage Market Trends 121

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Art by: Douglas Mazonowicz

Published monthly since
1939 by the Mortgage
Bankers Association
of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

March 13, 1984

As the economic recovery moves into its second year, there are danger signals on the horizon. The continuing imbalance between fiscal and monetary policy could push up interest rates enough by year end to threaten the real estate markets and the whole economy. This risk makes it all the more important that the current negotiations on the Federal budget deficit be successful.

During the four quarters of 1983, real gross national product increased by 6.1 percent, near the average for post-war recoveries. This was a welcome result, because many analysts had feared that an economic recovery could not be sustained in such a high interest rate environment. The pattern of recovery over the year also was near the norm: a slight annual growth rate of 2.6 percent in the first quarter gave way to a booming 9.7 percent surge in the second quarter when there still was considerable excess capacity in the economy. Inflationary pressure was avoided in the third and fourth quarters, as real growth slowed to 7.6 percent and 4.9 percent, respectively.

During 1983 the Federal Reserve maintained a relatively tight monetary policy, allowing interest rates to fall when market conditions permitted, but not actively pushing rates down. In spite of the huge Federal Government borrowing needed to finance the Fiscal Year (FY) 1983 deficit of $194 billion, interest rates were held down by the moderation in business borrowing made possible by strong profits. The unemployment rate fell faster during the first year of the 1983 recovery than during any other one-year period in recent memory. By February 1983, the unemployment rate had dipped to 7.8 percent, down from the post-war record high rate of 10.7 percent reached in December 1982.

The latest data for the fourth quarter 1983 contain positive and negative signals. After a slow start early in 1983, fixed investment spending now has increased to a level almost 20 percent higher than one year ago. The strongest component of investment growth has been residential fixed investment, which was running 41 percent ahead of last year in the fourth quarter.

Also, there are early signs of more inflationary pressure in the latest economic data. The consumer price index advanced at a 7.4 percent annual rate in January 1984, almost twice the rate for the full year 1983. Preliminary data for the current quarter suggest that real GNP may be growing at a 7 percent annual rate, two percentage points ahead of last quarter and too rapid a pace to be sustainable. Federal Reserve Chairman Paul Volcker has noted these early danger signals in his recent Congressional testimony, suggesting that if prices accelerate, the Fed will be forced to restrict money growth, which would result in higher interest rates.

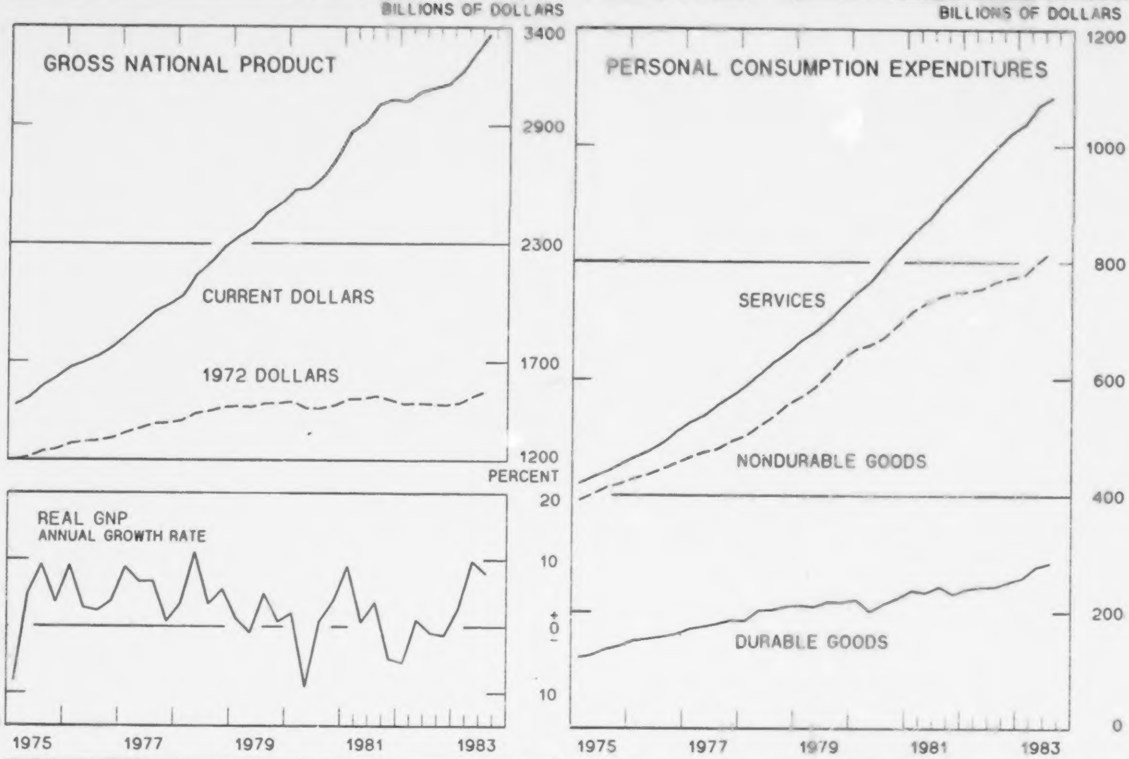
The most desirable way to reduce upward pressure on prices would be for the Federal Government to reduce its budget deficit, which adds to aggregate demand without adding to aggregate supply. In his February budget message, President Reagan called for bipartisan negotiations to shave $100 billion from the deficit over the next three years. Although those negotiations may not produce results, several Congressional committees are working on meaningful proposals, including some that would save as much as $150 billion by 1987. There are indications that some progress on the deficit will be made in this Congress. Although the amount cut from the projected FY 1985-1987 deficit of $600 billion will be a relatively small percentage, it will be a very important signal to the credit markets and the Federal Reserve that fiscal discipline is within reach. This measure is the only way that long-term interest rates can be brought down and kept down for the longer term.

The economic outlook for the rest of 1984 is highly dependent on the pattern of interest rates during the year. Based on the current posture of fiscal and monetary policy, the most likely scenario for rates now is that both long-term and short-term rates will remain within one-half of a percentage point of their current levels through mid-summer. During the third and fourth quarter, short-term interest rates could move up one percentage point, and the commercial bank-prime rate could be back to the 12 percent level. Long-term Government bond yields could approach 14 percent, up from current levels of just above 12 percent. If significant progress on budget deficits is registered, there could be a combination of favorable market psychology and relaxed Federal Reserve policy to produce flat or declining interest rates later in 1984 and into the next year.

Dr. Warren Matthews
Senior Economist

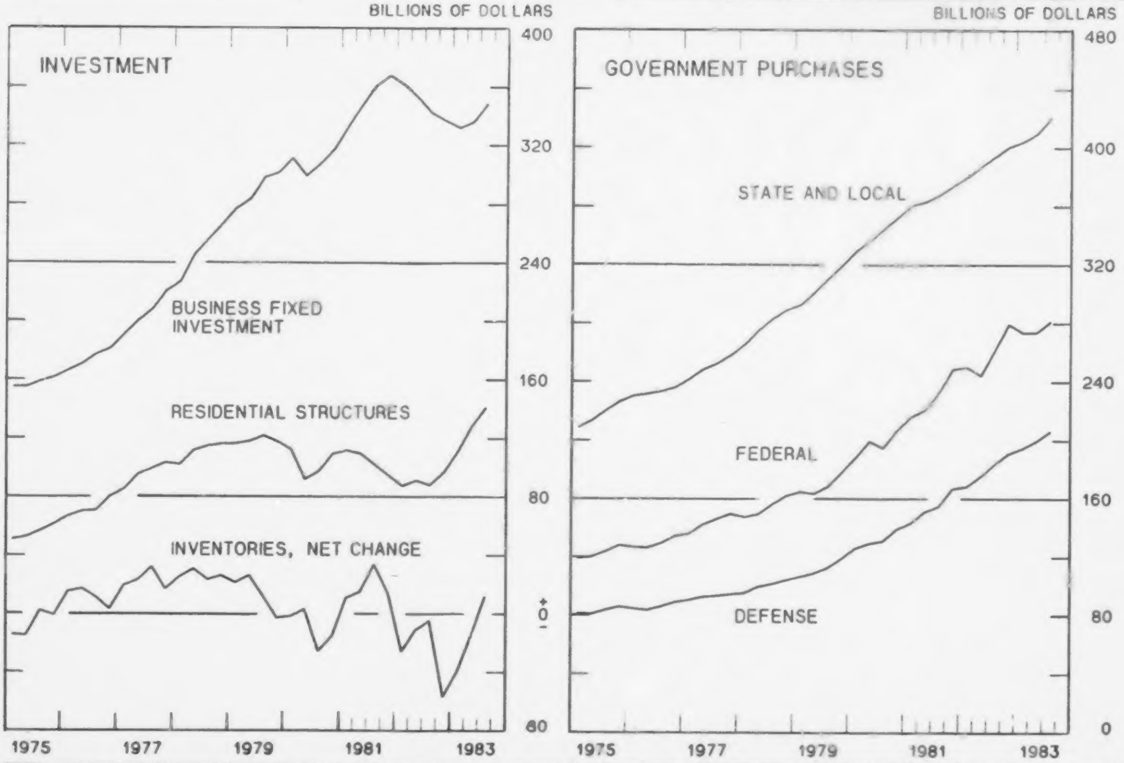
GROSS NATIONAL PRODUCT; PERSONAL CONSUMPTION EXPENDITURES

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



SELECTED COMPONENTS OF GNP

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—APRIL 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,632	1,184	448
FEB	93	56	36	1,479	949	530	96	66	30	1,706	1,182	524
MAR	135	91	44	1,467	985	482	135	95	40	1,592	1,119	473
APR	138	93	45	1,536	982	554	136	103	33	1,549	1,143	406
MAY	149	104	45	1,635	1,076	559	175	124	51	1,779	1,252	527
JUN	171	114	57	1,761	1,160	601	173	125	48	1,743	1,242	501
JUL	147	92	55	1,782	1,057	725	162	113	49	1,793	1,175	618
AUG	153	97	56	1,652	1,007	645	177	121	56	1,873	1,233	640
SEP	148	90	58	1,506	967	539	155	108	47	1,679	1,153	526
OCT	140	87	53	1,630	1,022	608	159	102	57	1,672	1,113	559
NOV	125	79	46	1,642	1,053	589	136	93	43	1,730	1,204	526
DEC	107	65	42	1,549	1,039	510	107	69	38	1,666	1,144	522
1984												
JAN	108p	66p	42p	1,772p	1,135p	637p	106p	74p	32p	1,915p	1,375p	540p
1 month												
1984	108	66	42				106	74	32			
1983	85	56	29				92	64	29			
1982	47	28	19				48	34	14			
1981	70	47	23				82	57	25			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,572	64,854	27,721	63,997
1984				
JAN	162,858	67,219	27,334	68,305

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.0
MAY	259	64	271	4.9
JUN	238	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	312	5.9
DEC	180	48	307	4.8
1984				
JAN	184p	53p	303p	5.2p
1 month				
1984	184	53		
1983	155	44		
1982	111	25		
1981	166	36		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	151	216	958	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	233	256	874	343
MAR	11	14	82	28	136	173	835	323	13	13	80	29	191	203	854	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	170	196	843	340
MAY	15	20	77	38	148	194	885	408	17	25	93	40	165	228	984	402
JUN	19	21	86	45	183	201	930	447	18	25	89	42	175	216	935	417
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	166	230	979	418
AUG	18	21	77	37	182	202	870	398	22	25	92	38	186	237	1,015	435
SEP	18	21	73	36	176	177	765	388	15	23	84	34	138	221	938	382
OCT	15	20	72	33	159	195	878	398	16	23	87	33	160	197	947	368
NOV	13	16	68	29	150	187	907	398	14	18	75	30	156	214	939	421
DEC	11	9	56	30	168	179	778	424	9	9	63	25	147	199	957	363
1984																
JAN	7p	8p	62p	32p	164p	233p	871p	504p	7p	8p	59p	32p	189p	303p	892p	531p
1 month																
1984	7	8	62	32					7	8	59	32				
1983	6	6	52	21					5	6	63	18				
1982	3	3	31	11					3	3	32	10				
1981	5	6	40	18					5	8	30	18				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	618	417	124	93	31
DEC	1,011	588	423	133	100	33
1984						
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1 month						
1984				n.a.	n.a.	n.a.
1983				81	60	21
1982				71	47	24
1981				88	69	18

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
	FHA New[3]	Conventional		Conventional				ARM (5 yr Treas.)	Conv.			10-yr.	26-wk.	90-119 Days		
		New	Existing	New	Existing											
1982																
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.24	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.62	13.64	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.30p	12.20p	13.49		12.763	12.825	12.46	12.74	11.67	9.01	9.20	34	79

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
JUL	10,164	2,230	3,427	3,661	846	6,981	1,950	2,922	2,049	60	481	50	206	177	48	2,702	230	299	1,435	738
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
JUL	48,616	8,500	16,951	13,346	9,729	8,461	2,700	3,537	1,679	545
AUG	49,495	9,050	17,748	13,192	9,505	8,946	3,050	3,847	1,615	434
SEP	50,444	9,800	18,241	13,108	9,295	10,089	4,240	3,888	1,466	495
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136p	46p	90p	118p	7,594p	20p	1,046p	22p	1,448p	76p	5,100p

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	2,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	870	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	2,181	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	644	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	780	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	493	841	1,261	1,704	1,685	1,121	4,046	2,543

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
MAY	90	30	20	40	50	620	80	160	380
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	450p	170p	20p	260p	400p	520p	230p	180p	110p

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
Year and Month	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1982													
JAN	1,590	1,150	130	380	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,310	140	210	1,400	1,030	370	200	460	140	70	70	230
MAR	2,380	1,800	100	430	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,790	80	300	1,940	1,550	450	250	850	80	20	60	310
MAY	2,350	1,820	260	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,550	2,110	110	300	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,170	1,730	50	280	2,230	1,950	610	370	970	50	50	0	230
AUG	2,040	1,860	70	320	2,450	2,130	720	420	990	70	10	60	250
SEP	1,960	1,820	30	140	2,280	2,090	700	490	900	50	10	40	140
OCT	2,470	1,890	510	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,370	2,950	200	260	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,140	3,870	130	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,230	4,350	580	270	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,060	170	270	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,730	5,780	80	800	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,850	5,520	900	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,280	5,190	530	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,160	5,800	790	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,650	4,830	30	410	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	4,780	4,360	230	640	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	3,850	3,190	140	590	4,670	3,660	1,260	830	1,570	220	60	160	590
OCT	3,730	3,000	270	530	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	5,550	4,990	100	520	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	6,000p	4,750p	100p	320p	5,900p	5,160p	1,550p	960p	2,650p	110p	0p	110p	630p

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	7,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	7,350p	4,830p	260p	2,260p	5,060p	3,230p	280p	1,550p	12,570p	10,510p	1,040p	8,250p	12,400p	1,190p

---

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sume of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5 + Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,050	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,460	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,360p	6,210p	1,660p	1,200p	3,350p	2,940	70p	2,870p	1,210p	44p	92p	53p	285,610p	44,810p	41,240p

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5 + Units	Non-Res.	Land Loans	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Land Loans
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	70	50	20	0	90	130	60	20	50	3,220	990	430	1,800	750
NOV	100	50	50	0	90	140	70	10	60	3,150	1,010	350	1,800	750
DEC	270p	170p	50p	50p	460p	450p	170p	20p	260p	6,450p	2,540p	650p	3,260p	2,430p

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,640	130	990	520	22,330	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	130	890	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	2,950p	120p	1,940p	890p	19,850p	1,190p	15,840p	2,820p	30,640p	2,980p	9,210p	18,450p

MORTGAGE BANKING

MAY 1984

The Magazine of Real Estate Finance

5621R 9[illegible]
SRI ACQUISITION
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST WEST HWY SUITE [illegible]00
BETHESDA, MD [illegible]

Volume 44 No. 8
May 1984

10 Free Lunch

19 Fixed Income Portfolio

34 HUD-Insured

Free Lunch for ARMs
Dr. Thomas R. Harter 10

Strategy for Diversification
Jeffrey K. Speakes 19

Non-Profit HUD-Insured Projects:
Conversion and Resyndication
N. Linda Goldstein and Marc Abrams 34

Major Shift Seen In S&L Industry
Christopher B. Leinberger 47

Condominium and P.U.D. Projects
Steps to Approval
Ava C. Rosenthal 56

Market Appeal In the Eye of the Beholder
Stanley Thea 72

New Rules Resolve Uncertainties
A Fair and Equal Balance
James R. Butler 84

About This Issue 5
People 96
Books 107
Advertisers Index 110
Mortgage Market Trends 113

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Stephen Wagner

Published monthly since
1939 by the Mortgage
Bankers Association
of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

April 12, 1984

Through the first two months of 1984, the residential real estate markets remained strong, due both to falling interest rates during parts of 1983 and the growing acceptance of adjustable rate mortgages. Privately-owned housing starts gained additional strength during January and February, continuing a rebound that began in January 1983. During the first two months of 1984, new houses were started at an annual rate of more than two million. This rate of starts is more than 20 percent ahead of the housing performance during all of 1983 and almost double the pace of 1982. Sales of new and existing houses reflect a similar improving trend since the housing slump of 1982. New house sales early in 1984 reached a seasonally adjusted annual rate of almost 700,000, up significantly from the 623,000 rate of 1983 and more than 65 percent ahead of the of the 412,000 sales recorded during 1982. Existing home sales averaged 2.88 million for the first two months of 1984, at a seasonally adjusted annual rate. Existing home sales have not demonstrated the same strength present in the new home sales market during the current economic recovery. This result is due largely to the greater flexibility of homebuilders to tailor their product and their financing for first-time buyers and other segments of their local markets to capture a growing share of sales in an expanding economy.

An important reason for the improvement in residential activity lies in the growing availability of lower effective mortgage interest rates during 1983 and early 1984. Although some of this effect was the result of a falling level of interest rates, much of it was due to the growing availability of adjustable rate mortgages at attractive effective interest rates. In addition, the interest rate differential between fixed-rate and adjustable rate mortgages increased in favor of ARMs throughout 1983 and in early 1984. Based on a Federal Home Loan Bank Board survey of conventional mortgage loans closed in January through March of 1984, the average effective mortgage rate declined to 12.23 percent, well below the 13.35 percent average level of the same three months of 1983. The decline in effective conventional mortgage rates during the past four quarters has been steady and continuous.

Since the first quarter of 1983, the spread between effective conventional mortgage rates for fixed-rate and adjustable rate loans widened from 28 basis to 107 basis points in the first quarter of 1984. While fixed-rate conventional loans now require an effective rate of 12.85 percent, adjustables average 11.78 percent. The difference between fixed- and adjustable rate loans actually available to borrowers is even greater, because these averages include some higher rate adjustables with payment or rate caps, while lower rates are available in most major markets.

As a result of the lower rates and wider spreads available on adjustable rate mortgages, ARMs captured 60 percent of the conventional loan market in early March 1984, and an estimated 58 percent of such loans in the January through March period. The ARM market share first exceeded one-half in the fourth quarter 1983, when 53 percent of the conventional market went to adjustables. In the first quarter of 1983, only 31 percent of conventional loans closed were in the adjustable category.

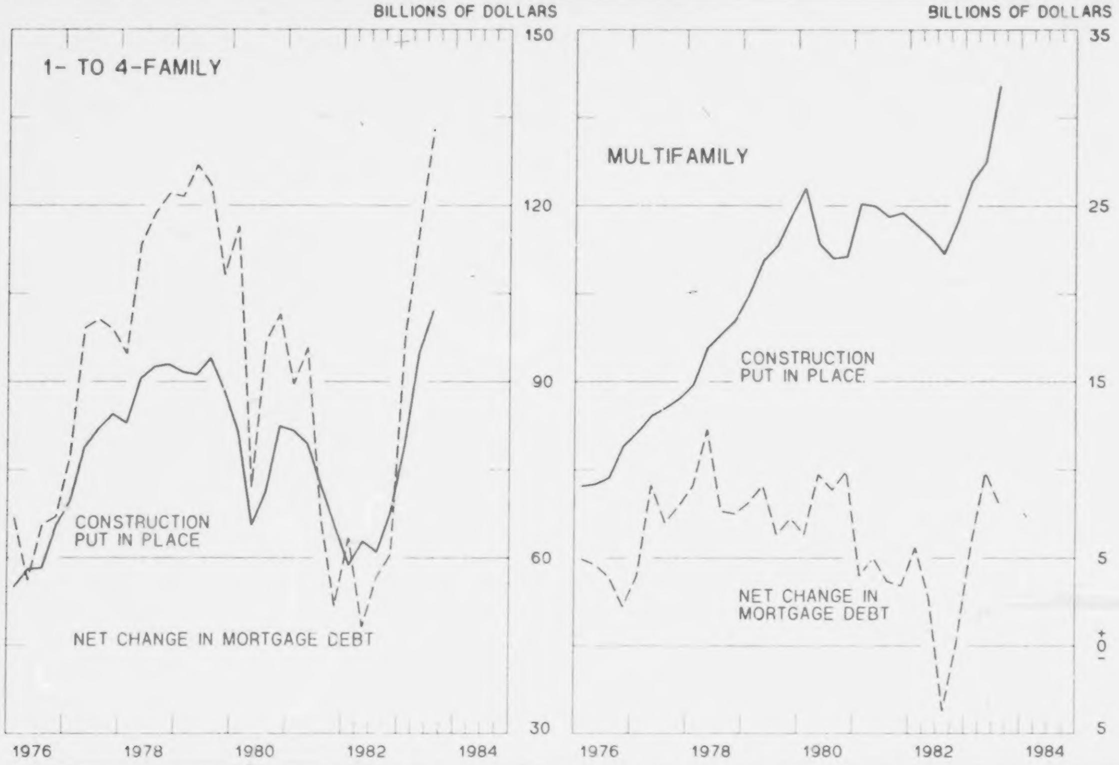
Over the past month, long- and short-term interest rates have been rising in response to growing private sector credit demand and a slightly more restrictive Federal Reserve monetary policy. Six-month Treasury bills now yield 10.5 percent, up from 9.5 percent in late January. Long-term fixed-rate mortgage yields have reached 14 percent in many markets, about one full percentage point above the levels of early February. There is a risk, of course, that these recent increases in interest rates could bring a premature end to the housing recovery.

Congress has made significant progress recently on the budget deficit, with both the House and Senate passing major fiscal bills. We remain hopeful that these efforts will result in a three-year deficit reduction of about $185 billion that should have a very favorable effect on long-term interest rates by summer. The results would be that the recent increases in interest rates could be reversed by July, the Federal Reserve could relax monetary policy modestly, and the housing recovery could continue throughout 1984.

Dr. Warren Matthews
Senior Economist

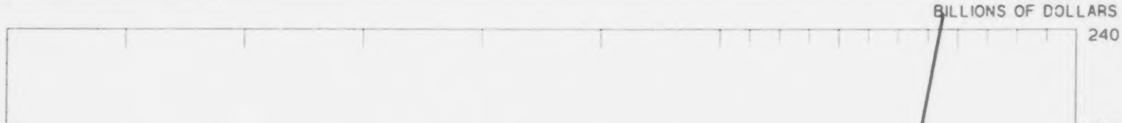
RESIDENTIAL MORTGAGE DEBT AND CONSTRUCTION

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



HOUSEHOLD BORROWING

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source: Federal Reserve Board

MORTGAGE MARKET TRENDS—MAY 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	_Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,632	1,184	448
FEB	93	56	36	1,479	949	530	96	66	30	1,706	1,182	524
MAR	135	91	44	1,467	985	482	135	95	40	1,592	1,119	473
APR	138	93	45	1,536	982	554	136	103	33	1,549	1,143	406
MAY	149	104	45	1,635	1,076	559	175	124	51	1,779	1,252	527
JUN	171	114	57	1,761	1,160	601	173	125	48	1,743	1,242	501
JUL	147	92	55	1,782	1,057	725	162	113	49	1,793	1,175	618
AUG	153	97	56	1,652	1,007	645	177	121	56	1,873	1,233	640
SEP	148	90	58	1,506	967	539	155	108	47	1,679	1,153	526
OCT	140	87	53	1,630	1,022	608	159	102	57	1,672	1,113	559
NOV	125	79	46	1,642	1,053	589	136	93	43	1,730	1,204	526
DEC	107	65	42	1,549	1,039	510	107	69	38	1,666	1,144	522
1984												
JAN	110	67	43	1,817	1,154	663	108	75	33	1,976	1,422	554
FEB	124p	78p	46p	1,941p	1,268p	673p	126p	84p	42p	2,197p	1,522p	675p
2 month												
1984	234	145	89				234	159	75			
1983	178	112	65				188	130	59			
1982	100	62	39				99	70	29			
1981	142	96	45				154	111	43			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,572	64,854	27,721	63,997
1984				
JAN	162,273	67,833	27,413	67,029
FEB	173,391	71,797	28,316	73,278

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.0
MAY	259	64	271	4.9
JUN	238	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	51	301	5.4
FEB	200p	59p	303p	5.1p
2 month				
1984	378	110		
1983	318	90		
1982	242	53		
1981	341	74		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	151	216	958	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	233	256	874	343
MAR	11	14	82	28	136	173	835	323	13	13	80	29	191	203	854	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	170	196	843	340
MAY	15	20	77	38	148	194	885	408	17	25	93	40	165	228	984	402
JUN	19	21	86	45	183	201	930	447	18	25	89	42	175	216	935	417
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	166	230	979	418
AUG	18	21	77	37	182	202	870	398	22	25	92	38	186	237	1,015	435
SEP	18	21	73	36	176	177	765	388	15	23	84	34	138	221	938	382
OCT	15	20	72	33	159	195	878	398	16	23	87	33	160	197	947	368
NOV	13	16	68	29	150	187	907	398	14	18	75	30	156	214	939	421
DEC	11	9	56	30	168	179	778	424	9	9	63	25	147	199	957	363
1984																
JAN	7	8	63	33	169	245	878	525	7	9	61	32	194	318	923	541
FEB	11p	11p	67p	35p	252p	286p	886p	517p	8p	11p	76p	32p	296p	333p	1,109p	459p
1 month																
1984	18	19	130	68					15	20	137	64				
1983	14	12	109	43					12	14	121	42				
1982	7	5	66	21					7	5	68	19				
1981	9	13	81	37					8	14	75	36				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,006	583	423	137	102	35
1984						
JAN	1,006p	584p	422p	108p	73p	35p
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1 month						
1984				108	73	35
1983				159	113	46
1982				134	89	45
1981				181	140	40

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA Mandatory Delivery Yields		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey							Aaa Utility[9] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
	FHA New[3]	Conventional		Conventional				ARM (5 yr Treas.)	Conv.			10-yr.	26-wk.			
		New	Existing	New	Existing											
1982																
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	3.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.763	12.825	12.46	12.99	11.67	9.01	9.20	9	79
FEB	13.20	13.31	13.32	12.28p	12.24p	13.98		12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
AUG	9,848	2,450	3,601	3,251	546	7,042	2,130	2,909	1,958	45	573	70	280	210	13	2,233	250	412	1,083	488
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	48	1,532	650	529	312	41	3,389	180	605	1,913	691
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	43	1,084	170	383	453	78	3,750	300	761	1,941	748
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	58	1,113	70	677	285	81	4,531	790	1,023	1,841	877
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	25,454	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
AUG	49,495	9,050	17,748	13,192	9,505	8,946	3,050	3,847	1,615	434
SEP	50,444	9,800	18,241	13,108	9,295	10,089	4,240	3,888	1,466	495
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
AUG	82	36	46	54	2,997	8	352	10	573	36	2,072
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
JUN	1,582	1,223	4,556	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	6,392	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	7,057	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	8,133	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	10,268	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	12,060	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	14,450	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,016	1,470	1,419	978	2,500	2,718

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
JUN	120	40	30	50	80	700	80	300	320
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	250	190	20	40	290	560	130	190	240
1984									
JAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

[9] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED								
						1-4 Units				5 + Units			
	Total[2]	1-4 Units	5 + Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1982													
JAN	1,590	1,150	130	380	1,430	1,030	330	240	460	150	40	110	250
FEB	1,640	1,310	140	210	1,400	1,030	370	200	460	140	70	70	230
MAR	2,380	1,800	100	430	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,790	80	300	1,940	1,550	450	250	850	80	20	60	310
MAY	2,350	1,820	260	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,550	2,110	110	300	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,170	1,730	50	280	2,230	1,950	610	370	970	50	50	0	230
AUG	2,040	1,860	70	320	2,450	2,130	720	420	990	70	10	60	250
SEP	1,960	1,820	30	140	2,280	2,090	700	490	900	50	10	40	140
OCT	2,470	1,890	510	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,370	2,950	200	260	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,140	3,870	130	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,230	4,350	580	270	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,060	170	270	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,730	5,780	80	800	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,850	5,520	900	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,280	5,190	530	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,160	5,800	790	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,650	4,830	30	410	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	4,780	4,360	230	640	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	3,850	3,190	140	590	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	3,730	3,000	270	530	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	5,550	4,990	100	520	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	4,360	4,470	100	280	4,970	4,860	1,420	850	2,590	110	0	110	570

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982														
JAN	2,320	1,850	170	300	2,590	1,970	100	520	5,160	1,150	940	4,350	1,540	1,200
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	6,310	4,060	250	2,000	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5 + Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982															
JAN	6,150	3,200	670	460	2,070	1,680	220	1,460	1,270	52	54	54	204,420	26,490	40,660
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	46	47	259,530	46,690	39,600

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5 + Units	Non-Res.	Land Loans	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Land Loans
1982														
JAN	90	20	20	50	40	460	50	130	280	2,430	580	570	1,280	570
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	60	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	70	50	20	0	90	130	60	20	50	3,220	990	430	1,800	750
NOV	100	50	50	0	90	140	70	10	60	3,150	1,010	350	1,800	750
DEC	250	190	20	40	290	560	180	40	340	8,490	2,710	940	4,840	1,550

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
JAN	2,030	160	1,400	470	8,070	650	3,620	3,800	10,790	1,200	6,150	3,440
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,640	130	990	520	22,330	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	130	890	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,450	100	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680

6/1/84
A6450-2

MORTGAGE BANKING

SPECIAL ISSUE 1984

The Magazine of Real Estate Finance

MORTGAGE
BANKING

Volume 44, No. 9
Special Issue 1984

24 Structured Financing

52 Syndications

82 New World

CMOs, And How They Grew
Richard M. Hamecs 9

Freddie Mac's Multifamily Loan Purchase Program and the Mortgage Banker
Leady W. Seale, Jr. 17

Structured Financing: Making a Difference
Michael J. BeVier and John W. Biasucci 24

Investment Advice: Orchestrating the Elements
S.Q. DellaGrotta 30

Specialization and the Art of the Possible
Jonathon I. Kislak 37

A Current Dilemma and One Solution
Kent E. Klopfenstein 41

Mortgage Banking's Future: High-Tech Takeover?
Deborah Whiteside 44

Syndications: Clearing the Pathways to Profits
John Oharenko 52

Controlling Mortgage Pipeline Risk
John Labuszewski and James F. Meisner 59

New Opportunities/Risks in the Secondary Market
Charles E. Reed 65

Truth in Lending: New Light on Reg. Z
Christina Scoptur 68

Mortgage Market's New World
Terrence M. Clauretie 82

About This Issue 5
People 87
Books 92
Advertisers Index 94

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse
Cover Illustration by: Stephen Wagner

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $35 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

CMOs AND HOW THEY GREW

Richard M. Hamecs

During the past several months, the mortgage market has taken several giant steps toward strengthening its ties to the overall capital bond market. The reason: the introduction of a new mortgage-backed security known as a collateralized mortgage obligation (CMO). According to observers, successful reception of CMOs indicates the potential of such a security to revolutionize the sources of and methods by which funds are raised to finance housing.

> "Successful reception of CMOs to date indicates the potential of such a security to revolutionize the sources of and methods by which funds are raised to finance housing."

General characteristics

A collateralized mortgage obligation is a debt obligation of the issuer, which is created solely for the purpose of selling the bond. As its name implies, the obligation may be backed by whole mortgage loans. More typically, however, CMOs sold over the past several months were collateralized by mortgage-backed pass-through securities (MBSs), which were guaranteed by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA).

Of the nearly $10 billion of CMOs issued, 57 percent were backed by GNMA mortgage-backed securities; 27 percent by conventional loans (virtually all of which were issued by the FHLMC); and 16 percent were collateralized by a mixture of Federal Housing Administration (FHA), Veteran's Administration (VA), and conventional whole mortgage loans.

CMOs are structured into multiple classes, each bearing a different stated maturity. The maturity of each class is based on an expected pattern of pay-off to the pool of underlying mortgage loans. The majority of CMOs sold over the past several months, for example, were comprised of at least three, and more often four different classes.

The multiple class/maturity structure of a CMO issue produces a unique pattern of cash flow that clearly distinguishes it from most other mortgage-related investments. In essence, a CMO is a hybrid between standard mortgage-backed bonds (MBBs) that were sold during the past decade and mortgage-backed pass- through securities (MBSs). Similar to a bond, interest is paid semiannually to the CMO investor. However, unlike a standard mortgage-backed bond, a CMO provides for the modified "pass-through" of principal to the bond-holders. While this feature is similar to an MBS, principal is only passed through to a CMO investor in semiannual installments, in contrast to monthly payment in the case of an MBS.

CMOs have been particularly attractive to some investors, who might not otherwise invest in the mortgage market, because they provide a modified form of "call-protection." Although the investment community and housing industry have long desired a mortgage instrument that offered "call-protection," attempts to design such an instrument proved futile in the past. A CMO successfully achieves this goal through a *de facto* breakdown of the underlying pool of mortgages according to how quickly the loans are repaid.

This fast-pay/slow-pay feature is reflected in the sequential retirement of

continued

---

[1] *Treasury yields are based on average constant-maturity, comparable-term bonds for the week of the financing. Spreads may therefore differ slightly from the actual pricings at time of sale. These Treasury bond yields are used in order to ensure consistency between the comparisons.*

Table 1

Monthly Volume of CMOs Sold
(dollar amounts in millions)

Month	Number	Amount
1983		
June	1	$1,000.0
July	1	113.5
August	–	–
September	2	1,184.7
October	4	614.6
November	3	1,300.1
December	1	447.2
1984		
January	8	2,237.0
February	7	2,700.2
Total	27	9,597.3

Sources: Data Securities Incorporated, Moody's "Bond Survey," and Telerate

the classes comprising a CMO issue. Monthly payment of principal received by the issuer from the pool of underlying mortgages (including scheduled amortization or early payoffs) is first returned to investors who hold the shortest maturity class. Only after the first class is retired can investors who have purchased the longer-term class expect to receive any "pass-through" principal.

This sequential payment design benefits both the issuer and the investor. For investors, sequential payment lends greater certainty to the term of their investment by partially guarding against much faster than desired return of principal—a form of call protection. For issuers, the temporary retention of principal and interest received monthly from the pool of underlying mortgages is a source of income during the holding period before subsequent semiannual disbursements are made to CMO investors.

Stated maturities for classes of CMOs sold during the past several months have ranged between three and 30 years. However, actual maturity of a class is likely to be substantially shorter because of prepayments of the underlying mortgages. Therefore, to an investor considering purchasing a CMO, two maturity dates are important. First, there is the stated maturity, i.e., the date when the class is to be redeemed without prepayments. Second, there is the average weighted life, i.e., the estimated life of the class with prepayments. Calculations of the "weighted average life" (WAL) are based on the historical pattern of the FHA loan payoffs. WALs are extremely important in pricing CMOs.

Distinctions

CMOs are distinct in at least two respects from standard, single-maturity MBBs sold during the past decade. First, the face amount of a CMO tends to be much larger than a MBB. During the past eight months, the average issue size of a CMO sold was over $359 million—more than 20 times larger than the average size of a standard mortgage-backed bond of just under $15 million. Because of the high up-front costs of setting-up a CMO, the optimum issue size is generally considered to be between $250 and $500 million.

Second, CMOs are seldom as overcollateralized as straight MBBs. In some instances, the dollar amount of mortgages needed to back a straight mortgage-backed bond could go as high as 175 percent of the face amount of the bond. Substantial overcollateralization of an MBB was often deemed necessary to guard against potential shortfalls. Obviously, this practice has a serious drawback in that it locks up the pool of underlying mortgages for as long as the bond is outstanding. Despite this impediment, however, nearly $1 billion of standard mortgage-backed bonds were sold during 1983.

A feature shared by CMOs and traditional mortgage-backed bonds is that both are considered to be a debt financing of the issuing company, although this treatment is still open to debate. Specifically, the question is: should the sale of a CMO be treated as a sale of assets (i.e., mortgage and mortgage-backed securities collateralizing the bond) or a debt financing? For federal tax purposes, CMOs have been treated as debt financing because there is no "active" management of the underlying pool of loans. Federal taxes are paid by the CMO investor and not by the CMO issuer, even though the monthly receipt of principal and interest payments from the collateralized mortgages are reinvested prior to disbursement.

To date, however, the Financial Accounting Standards Board (the standards-setting arm of the accounting profession) has yet to establish guidelines for what the appropriate accounting treatment should be for CMOs. Although there is no consensus, some accountants view CMOs as constituting a sale of assets, despite the tax treatment afforded on these transactions. However, other members of the profession agree with the Treasury's view that CMOs are a debt financing of the issuing entity.

Volume of activity

The capital market was introduced to this newest mortgage-backed security in June 1983, with a sale of a $1 billion issue by the FHLMC. Collateralized by conventional loans and FHLMC Participation Certificates (PCs), this offering was divided into three classes in amounts of $215, $350, and $435 million. The WALs were 3.2, 8.6, and 20.4 years, respectively, for the three classes. The FHLMC offering met with resounding success. Yields for the three classes were only 43, 60, and 87 basis points higher than comparable-term Treasury securities—a spread considerably less than the 250-300 basis points that historically separated FHLMC PC and comparable-term Treasury bond yields.

As shown in Table 1, the CMO concept caught on quickly. By the end of 1983, 12 CMO issues were sold totalling nearly $5 billion—most backed by GNMA MBSs (the exception was the FHLMC CMO). During January and February of 1984, CMO sales brought the

continued

Richard M. Hamecs is a senior financial economist in the Financial Policy Division, U.S. Department of Housing and Urban Development, Washington, D.C., which he joined in 1978. He is responsible for analyzing the secondary mortgage and capital markets and the growing reliance by mortgage lenders on taxable and tax-exempt securities.

cumulative totals to 27 issues totalling nearly $10 billion.

Several recent CMO offerings that have expanded the initial concept or are of particular importance include:

- Prudential Realty Surety Inc., which sold a $271 million CMO on January 27, 1984 backed by seasoned mortgage loans bearing interest rates as low as 4 percent.
- A $352 million CMO backed only by conventional Norwest mortgage-backed securities that was sold by Norwest Mortgage on February 2, 1984.
- The largest CMO, totalling $1,250 million, which was sold by Travelers Mortgage, Inc., on February 23, 1984.

Issuers

Sixteen institutions have been responsible for the 27 CMO financings since June 1983. The issuers have included subsidiaries of Lomas & Nettleton Mortgage Company (L&N Funding Corp.), two New York investment houses (Salomon Brothers and Paine Webber), and several insurance companies, including Travelers and Prudential. Other categories of issuers included mortgage insurance and conduit corporations, individual and consorted home building concerns, and a unit investment trust. (See Table 2.)

The largest institutional issuer of CMOs has been the FHLMC with three offerings totalling $2.2 billion or slightly more than 20 percent of all CMO offerings. Also in the $1 billion-plus category are Investors GNMA Mortgage-Backed Securities Trust, Inc. (two issues totaling $1.1 billion) and Travelers Mortgage (one issue for $1.25 billion).

Buyers

A recent report by Salomon Brothers, Inc. sheds important light on the types of investors who have been the major buyers of CMOs. Salomon Brothers' data also indicate the maturity classes that these buyers found most attractive. As shown in Table 3, pension funds have been extremely active buyers of all CMO maturity classes.

Table 2

Issuers of Collateralized Mortgage Obligations
July 1983–February 1984
(dollar amounts in millions)

Issuers	CMOs Issues Number #	Amount $
Federal Home Loan Mortgage Corporation	3	2,209.7
Travelers Mortgage Securities, Inc.	1	1,250.0
Investors GNMA Mtge-Backed Securities Trust, Inc.	2	1,000.0
Guaranteed Mortgage, Inc.	4	968.5
Norwest Mortgage Insured, Inc.	3	963.4
Paine Webber Programmed Amor. Term Sec., Inc.	1	500.0
Salomon Brothers Mortgage Securities, Inc.	1	500.0
Sears Mortgage Securities Corp.	1	500.0
American Southwest Financial Corporation, Inc.	3	325.5
Pulte Home Credit Corporation, Inc.	1	300.0
Centrex Acceptance Corporation	2	300.0
Prudential Realty Securities, Inc.	1	271.5
L&N Funding Corporation	1	250.0
Ryan Mortgage Acceptance Corp.	1	151.1
International Mortgage Acceptance Corp.	1	107.3
	27	9,597.3

Sources: Data Securities Incorporated, Moody's "Bond Survey," and Telerate

Table 3

Major Institutional Groups Buying CMOs
(Percent Distribution)

Maturity Class (Weighted Average Life)	Thrift Institutions %	Banks %	Insurance Companies %	Pension Funds %	Other %
Class 1 (WAL 2 to 3.2 yrs)	26.9	17.7	18.1	33.2	4.1
Class 2 (WAL 4 to 6.1 yrs)	7.2	2.1	57.4	29.1	4.2
Class 3 (WAL 8 to 11.1 yrs)	5.5	3.4	40.4	48.7	2.0
Class 4 (WAL 17 to 22.3 yrs)	3.3	—	29.3	67.4	—

Notes: "Other" includes security dealers, federal agencies, foundations, and corporate and municipal operating funds.
"Maturity Class" is measured by the weighted average life (WAL) of the obligation.

Source: Salomon Brothers, Inc., "Comments on Credit," March 9, 1984

Pension funds accounted for 33 percent of Class 1 or A obligations (WAL less than four years); 29 percent of Class 2 or B bonds (WAL 4.1 to seven years); nearly half of Class 3 or C bonds (WAL of 7.1 to 10 years), and over two-thirds of the longest maturity Class 4 or Z bonds (WAL in excess of 10 years). The second major CMO investor group was insurance companies, although this group tended to focus its purchases in the mid-range classes.

To the extent thrift institutions and banks were attracted to CMOs, their investments were limited to the shortest maturity class with a WAL of less than four years. Combined, the thrifts and banks have purchased approximately 45 percent of the Class 1 or A obligations.

Pricing and yields

The Norwest Mortgage Conventional I is among five representative CMOs for which detailed pricing and yield spread information is provided in Table 4. As shown in this table, pricings on CMOs were extremely favorable relative to comparable-term Treasury securities. The result was a fairly narrow yield spread between CMOs and Treasur-

Table 4

Recent Sales of Serialized Mortgage-Backed and Mortgage Collateralized Bonds

Sales Date	Issuer	Ratings		Amount (millions)	Stated Maturity	Weighted Ave. Life[1]	Coupon Rate %	Price %	Yield %	Comparable Yield %	Treasury Pricing[2]	
		Moodys	S&P								Term (years)	Spread %
1/19/84	The Federal Home Loan Mortgage Corporation											
	10.75% PC-Coll Bonds	NR	NR	129.625	1/31/87	1.8	10.75	99.9688	10.77	10.54	18 mo	23
	11.35% PC-Coll Bonds	NR	NR	86.450	1/31/89	4.3	11.35	100.00	11.35	11.19	4 yr	16
	11.875% PC-Coll Bonds	NR	NR	228.725	1/31/94	7.8	11.875	100.00	11.875	11.73	7 yr	15
	12.10% PC-Coll Bonds	NR	NR	80.200	1/31/09	16.8	12.10	95.125	12.467	11.78	15 yr	69
				525.000								
2/2/84	Norwest Mortgage Conventional 1, Inc.											
	11% Coll Mtge Bonds, Class A	Aa2	AA	55.000	2/1/91	2.3	11.00	100.00	11.00	10.59	2 yr	41
	12% Coll Mtge Bonds, Class B	Aa2	AA	105.000	2/1/97	5.4	12.00	99.75	12.066	11.33	5 yr	74
	12.5% Coll Mtge Bonds, Class C	Aa2	AA	157.200	2/1/02	10.1	12.50	99.72	12.566	11.62	10 yr	95
	12.5% Coll Mtge Bonds, Class Z	Aa2	AA	35.000	2/1/14	20.8	12.50	91.625	13.041	11.71	20 yr	130
				352.200								
2/3/84	American Southwest Finance											
	10.875% GNMA Coll Bonds	NR	AAA	10.110	8/1/91	2.1	10.875	99.813	10.969	10.59	2 yr	37
	11.875% GNMA Coll Bonds	NR	AAA	22.100	2/1/96	5.1	11.875	99.313	12.046	11.33	5 yr	71
	12.375% GNMA Coll Bonds	NR	AAA	36.375	2/1/01	9.6	12.375	99.188	12.517	11.62	10 yr	90
	12.375% GNMA Coll Bonds	NR	AAA	7.915	2/1/14	20.0	12.375	90.75	12.95	11.71	20 yr	124
				76.500								
2/14/84	L & N Funding Corporation											
	11% GNMA-Coll Bonds, Series A1		AAA	68.000	9/17/90	2.41	11.00	99.975	11.12	10.76	2 yr	36
	11.875% GNMA-Coll Bonds, Series A2		AAA	72.000	3/17/94	5.44	11.875	99.46	12.01	11.54	5 yr	47
	12% GNMA-Coll Bonds, Series A3		AAA	58.000	3/17/96	7.83	12.00	98.50	12.34	11.74	7 yr	60
	12% GNMA-Coll Bonds, Series A4		AAA	52.000	3/17/14	17.99	12.00	87.43	13.05	12.00	20 yr	105
				250.000								
2/22/84	Norwest Mortgage Insured, Inc.											
	11.25% GNMA-Coll Bonds, Series A	Aaa	AAA	23.200	4/1/91	2.00	11.25	99.844	11.334	10.93	2 yr	40
	12.25% GNMA-Coll Bonds, Series B	Aaa	AAA	39.300	10/1/96	4.81	12.25	100.00	12.25	11.67	5 yr	58
	12.25% GNMA-Coll Bonds, Series C	Aaa	AAA	86.520	10/1/02	9.71	12.25	97.625	12.665	11.95	10 yr	71
	12.25% GNMA-Coll Bonds, Series Z	Aaa	AAA	15.000	4/1/14	21.34	12.25	85.50	13.136	12.09	20 yr	105
				164.020								

[1] Weighted average life of underlying pool, assuming 100 percent of FHA experience.

[2] Yield comparison approximated, using average constant-maturity Treasury yields for the week of financing. These yields may not equal new or secondary market Treasury security yields at time of CMO sale.

ies—in one case as low as 15 basis points.[1]

The width of the spread, however, varied according to maturity, issuer, and type of collateral. Usually, differentials tended to be smaller on shorter maturities than for longer maturities. Of the five issues reviewed, the short maturities sold at yields between 23 and 41 basis points above comparable-term Treasuries. The spread for the long maturities was between 69 and 130 basis points.

These differences are suggested by two factors: 1) the type of security collateralizing the issue (FHA/VA loans in a GNMA-guaranteed MBS, or conventional mortgages) and 2) who was doing the financing (a federally sponsored agency—(FHLMC), or a private conduit—(Norwest). The smallest spread on the long maturity (69 basis points) was on the FHLMC offering. In contrast, the Norwest Conventional I issue, backed solely by conventional mortgages, required the largest yield markup relative to Treasuries—130 basis points. The spread for another Norwest offering that was backed by GNMA-guaranteed MBSs was 25 basis points lower, or 105 basis points above a comparable-term Treasury bond yield.

continued

Table 5

Spreads Between Treasury, GNMA, AAA-Corporate, and AAA-Utility Yields January 1982 to February 1984

	Yield Differentials				Spread Diff
Period	GNMA—Trea	GNMA BE*—Trea	Corp—Trea	Util—Trea	GNMA BE—Utility
82:1	1.68	2.22	0.87	1.31	.91
82:2	1.60	2.11	0.80	1.24	.87
82:3	1.38	1.82	0.84	1.16	.66
82:4	1.35	1.66	1.04	1.45	.21
83:1	1.29	1.60	0.99	1.46	.14
83:2	1.19	1.48	0.77	1.28	.20
83:3	1.21	1.56	0.56	1.08	.48
83:4	0.85	1.18	0.53	0.95	.23
1982–1983					
Average	1.32	1.71	0.80	1.24	0.47
1983					
January	1.36	1.71	1.02	1.52	.19
February	1.23	1.53	1.00	1.46	.07
March	1.28	1.57	.94	1.41	.16
April	1.32	1.61	.88	1.37	.24
May	1.11	1.39	.79	1.34	.05
June	1.15	1.45	.64	1.13	.32
July	1.26	1.60	.56	1.10	.50
August	1.25	1.61	.57	1.10	.51
September	1.13	1.47	.56	1.04	.43
October	1.02	1.35	.50	.91	.44
November	.83	1.16	.52	.93	.23
December	.71	1.04	.57	1.00	.04
1984					
January	.68	0.95	.39	1.04	−.09
February	.54	0.82			.82

* Bond Equivalent Yield

Source: Data Resources Incorporated

Importance of yield spreads

Yield relationships are important to CMOs. Indeed, the impetus for the rapid growth of these securities over the past eight months has been the favorable arbitrage position available to CMO issuers. A CMO can work only if the interest income from the underlying collateral (plus any re-investment interest income from temporarily retained principal) is greater than the interest rates the issuer must pay to the investor who buys the security.

While other debt instruments can be used for CMO-like transactions, mortgages and mortgage-backed securities are ready candidates for the task for the following reasons. First, in order to enhance the attractiveness of the CMO, an ample and expanding supply of collateral is necessary to assure the liquidity of the security.

Second, the collateral to back the issue must be considered sufficiently "safe" and have a predictable, if not certain, pattern of cash flow.

Third, and most important, the interest income derived from the underlying collateral must be sufficient to provide a return to both issuer and investor. In short, the collateral must yield more than Treasuries but not so much that the issuer's cost of acquiring the collateral is prohibitive.

Mortgages, and especially mortgage-backed securities, easily satisfy each of these requirements, particularly the last. Historically, the differential between yields on mortgages and mortgage-related securities and Treasury securities has remained fairly stable and of sufficient breadth to assure a return to both issuer and investor.

Effects on the secondary mortgage market

Based on available evidence, the popularity of CMOs accelerated the demand for mortgages and other mortgage-related securities during a period when no commensurate rise occurred in the supply of mortgage product in the secondary market. Conflicting forces of rising demand and stable-to-moderately-declining supply sharply compressed yields on mortgages relative to all other types of debt instruments.

A review of historic and current yield spreads illustrates the effects of CMOs on pricing in the mortgage market. While the following yield spread analysis focuses on GNMA guaranteed mortgage-backed securities (and correspondingly the FHA and VA loan market) similar trends also are found with regard to conventional mortgages.

GNMA and Treasury yield spreads

Monthly data comparing yields for "current" coupon GNMAs and 10-year Treasuries are presented in Table 5, spanning the period from January 1982 to February 1984. More detailed weekly data are presented in Table 6. (While both nominal and bond-equivalent yields for GNMAs are shown in these tables, the following discussion pertains only to the GNMA bond equivalent yields). Throughout this period, GNMAs typically traded at yields around 175 basis points (1.75 percentage points) above 10-year Treasuries—a level that is generally considered "normal" from an historical perspective. Fluctuations around this "norm" abound, however. Until October 1983, the spread ranged from a monthly average high of 236 basis points (February 1982) to a low of 139 basis points (May 1983).

Initial signs of a compression in the GNMA and Treasury yield spread appeared in October 1983, when the differential narrowed to 135 basis points. During November and December, the respective yields continued, converging to a low of 104 basis points in December. The spread continued declining during the first two months of 1984 to a record low 78 basis points during the last week of February.

None of the historical reasons for fluctuating yield spreads appears adequate to explain the magnitude or duration of the recent GNMA and Treasury yield compression. On the contrary, the current and ongoing narrow spread between GNMA and Treasury yields sug-

Table 6

Comparisons of Treasury, GNMA, AAA-Corporate, and AAA-Utility Yields July 1, 1983 to February 24, 1984

Week Ending		Yield Differentials				Spread Diff
		GNMA— Trea	GNMA BE*— Trea	Corp— Trea	Util— Trea	GNMA BE— Utility
1983						
Jul	1	1.25	1.56	0.59	1.09	.47
	8	1.28	1.61	0.52	1.07	.54
	15	1.24	1.58	0.52	1.06	.52
	22	1.23	1.56	0.63	1.15	.41
	29	1.28	1.63	0.54	1.09	.54
Aug	5	1.33	1.70	0.54	1.09	.61
	12	1.28	1.66	0.57	1.12	.54
	19	1.29	1.65	0.62	1.13	.52
	26	1.16	1.50	0.64	1.10	.40
Sept	2	1.11	1.47	0.49	1.07	.40
	9	1.06	1.41	0.57	1.05	.36
	16	1.17	1.52	0.55	1.07	.45
	23	1.12	1.46	0.56	1.02	.44
	30	1.19	1.53	0.58	1.02	.51
Oct	7	1.19	1.52	0.62	1.03	.49
	14	1.04	1.38	0.39	0.81	.57
	21	1.02	1.35	0.52	0.88	.47
	28	0.84	1.17	0.46	0.89	.28
Nov	4	0.83	1.16	0.46	0.92	.24
	11	0.78	1.11	0.49	0.89	.22
	18	0.81	1.14	0.51	0.93	.21
	25	0.88	1.21	0.56	0.94	.27
Dec	2	0.78	1.10	0.57	0.96	.14
	9	0.68	1.01	0.51	0.97	.04
	16	0.66	0.99	0.58	1.05	–.06
	23	0.76	1.09	0.61	1.01	.08
	30	0.70	1.03	0.62	1.00	.03
1984						
Jan	6	0.67	1.00	0.56	0.97	.03
	13	0.67	0.99	0.60	0.98	.01
	20	0.72	1.04	0.30	0.94	.10
	27	0.63	0.95	0.24	0.95	–
Feb	3	0.58	0.87	0.19	0.93	–.06
	10	0.59	0.91	0.08	0.82	.09
	17	0.51	0.83	0.06	0.73	.10
	24	0.48	0.78	0.13	0.77	.01

* Bond Equivalent Yield

Source: Data Resources Incorporated

gests that CMOs have caused a more fundamental shift in the basic yield structure. Supporting this is the analysis that follows on the relationship of yields between GNMA and AAA-rated utility bonds. What is not known at this point is how long these present patterns will persist.

Utility bond yield spreads

A steady convergence of yields between GNMAs and other debt instruments has occurred over the past several months. This is indicated by the yield differential between maturity-comparable GNMA and AAA-rated utility bond yields shown in Tables 5 and 6. (This analysis was limited to AAA-rated utility bond yields. AAA-rated corporate yield indices have been heavily influenced by recent CMOs sales, because these indices tend to be based on recently sold issues. The vast majority of these have been AAA-rated CMOs that are considered corporate bonds.)

Maturity-comparable yield spreads are calculated as the difference between GNMA versus 10-year Treasury yields and 20-year AAA-rated utility versus 20-year Treasury bond yields. The purpose of this calculation is to minimize yield curve effects. By this measure, the current prevailing yields on GNMAs are virtually equal to AAA-rated utility bond rates.

The disappearing differential is most unusual. During the past two years, the average spread was 47 basis points, with GNMAs consistently trading at higher yields than AAA-rated utilities. In early 1982, the difference was nearly one full percentage point. Since October 1983, however, when CMOs became the "hot" debt instrument, the differential consistently declined. The average differential for January and February 1984 was less than four basis points.

CMOs and home mortgage interest rates

Among the beneficiaries of this phenomenon were homebuyers. As Table 2 illustrates, the lower secondary mortgage market yields (resulting from the convergence of GNMA-Treasury yields) were passed along to homebuyers in the form of lower home mortgage interest rates. The data in this table reflect the same convergence of yields between Treasuries and GNMA-guaranteed securities discussed above.

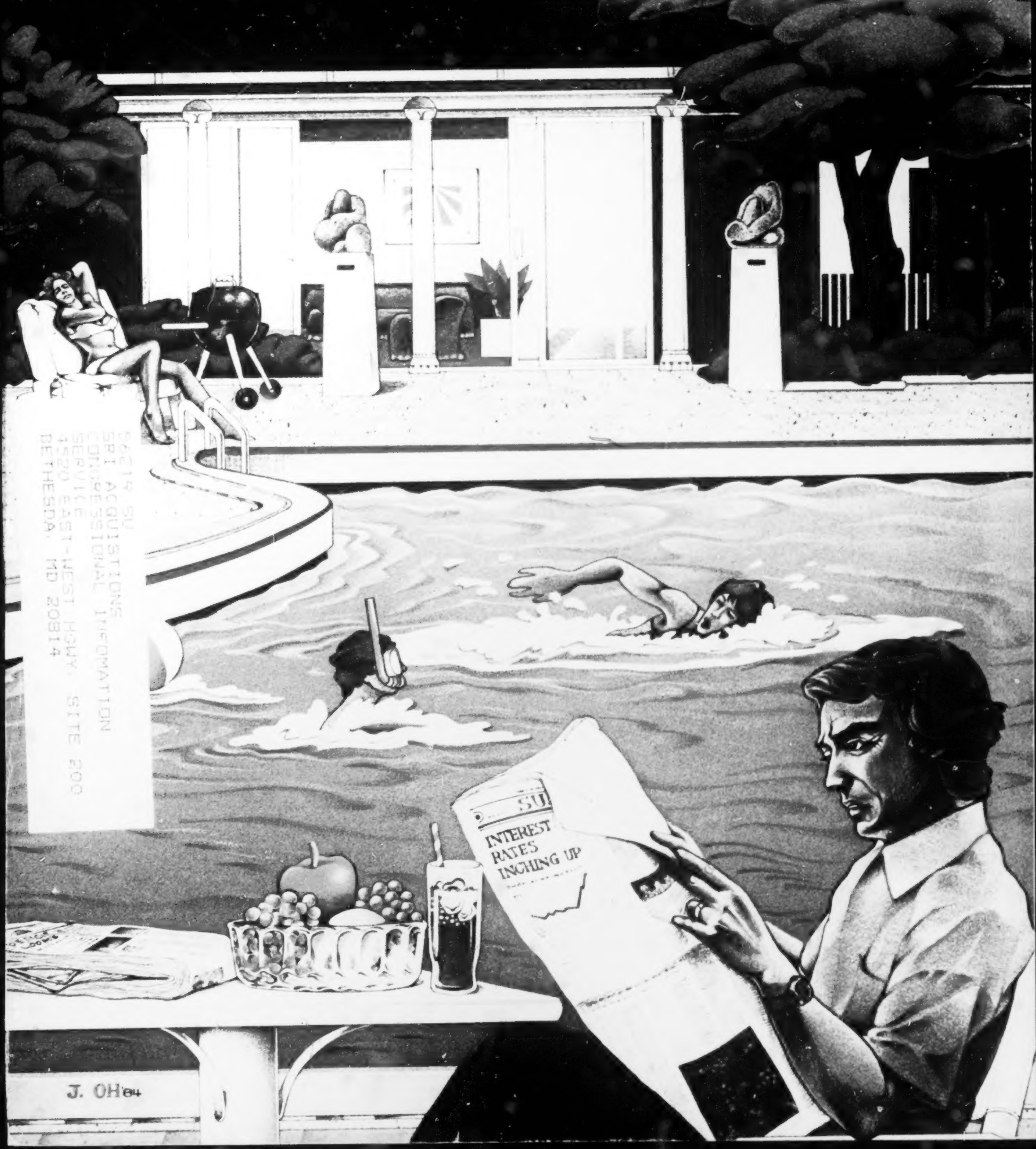
In January 1983, a homebuyer with an FHA loan would have paid an effective interest rate of approximately three percentage points more than the prevailing 10.43 percent yield on 10-year Treasuries, i.e., an effective FHA loan rate of around 13.5 percent. During the final week of February 1984, the same loan would have cost only one percentage point more than the 11.95 percent 10-year Treasury security rate, i.e., an FHA loan rate of about 13 percent. Although yields on 10-year Treasuries are now 1.5 percentage points more than in 1983, effective interest rates for FHA-insured mortgages in February 1984 (13.04 percent) were less than .5 percent higher than they were in January 1983 (12.61 percent). ☐

MORTGAGE BANKING

JUNE 1984

The Magazine of Real Estate Finance

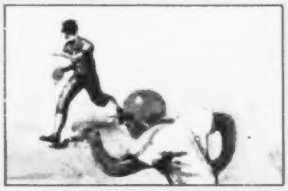
A 6450-2


INTEREST RATES INCHING UP
J. OH'84

56214 SU
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST-WEST HGWY. SITE 200
BETHESDA, MD 20814

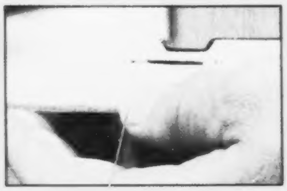
MORTGAGE
BANKING

Volume 44 No. 10
June 1984



10 Coping With Risk

34 Crowding Out?



72 Tab A in Slot L

Coping With Risk in the Secondary Market
Raymond S. Cahnman, Michael P. Kamradt, Henry F. Otto 10

Everything You Wanted to Know About ARMs
Diane L. Cortes 20

Crowding Out? An Analysis of Credit Demand
Dr. Bernard M. Markstein III 34

Income Property: Construction Lending Policy
Henry S. Kesler 49

Mortgage Markets and Mortgage-Related Securities: Developments and Implications
Dr. Frederick E. Flick 54

Tab A in Slot L: Engineering in Lending
Maurice B. Levien 72

Relocation: The Human Element
Glenn P. Schreiber 78

When Less Can Be Better
Daniel A. Blumberg 89

About This Issue 5
People 97
Books 107
Classified Advertisements 118
Advertisers Index 110
Mortgage Market Trends 113

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Jeffrey Oh

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

CROWDING OUT?

AN ANALYSIS OF CREDIT SUPPLY AND DEMAND

Bernard M. Markstein III

Much public discussion has centered on the anticipated size of the federal government deficit over the next several years. Projections call for the deficit to continue near record highs in the immediate future. Chase Econometrics is not alone in its projections for the deficit: the Administration, Congress, and other forecasters have produced similar figures. More disturbing, the deficit projections are not significantly lower for higher Gross National Product (GNP) growth paths. Among the many factors contributing to this result are the indexation of taxes, accelerated defense spending, and benefit increases for Social Security recipients. The first reduces the beneficial effects on the deficit of bracket creep, and the latter two will widen the deficit on the expenditure side.

In the recent past, large deficits were not only acceptable but were even desirable—they provide needed stimulus to the economy. The economy was able to absorb them because of low private credit demands. It is later in the recovery that problems arise. In the past, private credit demands have increased as a recovery proceeds. Simultaneously the deficit has fallen—generally in absolute terms, as well as relative to GNP—permitting the rising private credit needs to be funded. This time, however, it appears that the deficit will remain high both in absolute terms and relative to GNP. Will the economy be able to fund private credit needs properly or will there be crowding out?

The results of Chase Econometrics' research indicate that through 1984 the large government deficits will not crowd out private investment, but that starting in early 1985 there will be increased competition for funds due to rising private credit demands. This will lead to some crowding out.

The supply of credit

Pioneering work has been done by Dr. Benjamin M. Friedman, a Professor of Economics at Harvard University, indicating a strong historical relationship between total domestic nonfinancial credit and GNP.[1] Dr. Friedman has found this ratio to be almost constant over the 1960 to 1980 period; there has been only a slight trend upward, with

continued

This article was adapted from a presentation given at the Atlantic City Economic Outlook Forum, "Forecast and Planning Issues for 1984."

ILLUSTRATION BY BYRON PECK/EGLY ASSOCIATES

almost negligible cyclical movements. (See Figure 1.) Whatever cyclical movements there are result from the fact that the numerator—total domestic non-financial credit—is a stock that changes slowly, while the denominator—nominal GNP—is a flow that changes more rapidly. Hence, during a recession the ratio tends to rise somewhat (note particularly the recent 1981-83 period) while during an expansion phase it declines. Yet over longer periods of time the ratio is very stable.

This stability occurs despite considerable variation in the components. Total domestic nonfinancial debt represents the stock of outstanding debt instruments issued by nonfinancial entities (entities that are not banks or thrift institutions). These include nonfinancial businesses (corporations, farms, partnerships), households, state and local governments, and the federal government. Nonfinancial federal government debt excludes such financial governmental borrowings as those of the various federally sponsored credit agencies, such as the Government National Mortgage Association (GNMA), and mortgage pools.

In the early 1950s, the federal portion of this debt was considerable, due to debt remaining from World War II. This share was gradually reduced as the economy grew faster than new debt was acquired, to a low in 1974. From that nadir the federal government share has again grown.

The decline in the federal government portion of domestic nonfinancial debt has allowed the business and household shares to grow. Most of the growth in the household share can be traced to increased mortgage borrowing—much of it encouraged by federal programs and policies.

continued

Figure 1

Domestic nonfinancial debt as a percent of GNP

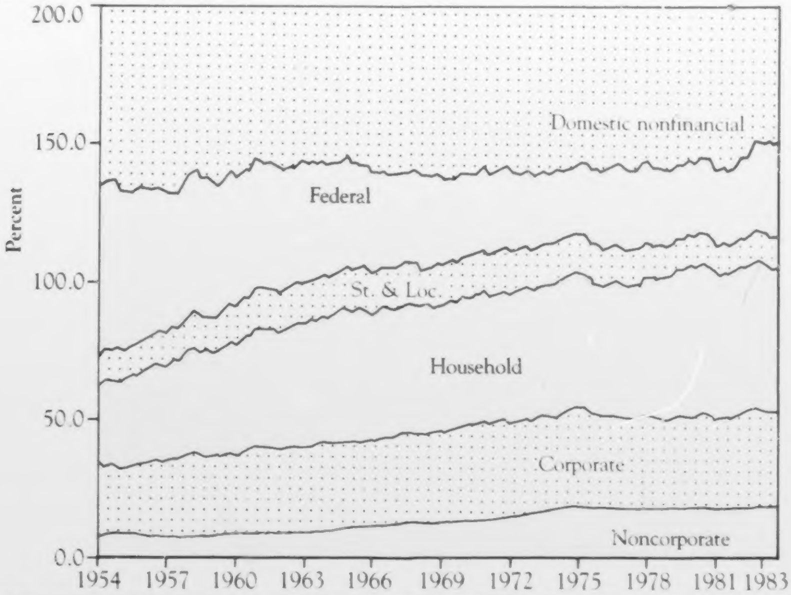


Figure 2

Projected credit supply and demand relative to GNP

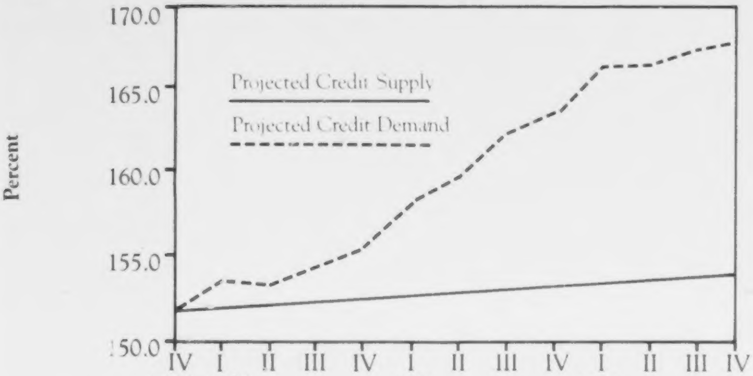
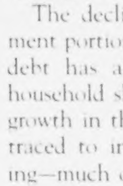


Table 1

Credit Supply Projections

Date	Domestic Nonfinancial Debt-GNP Ratio	GNP $ Billions	Domestic Nonfinancial Credit Supply $ Billions
1984.1	151.99	3519	5348
1984.2	152.14	3595	5469
1984.3	152.29	3679	5602
1984.4	152.45	3759	5731
1985.1	152.60	3841	5861
1985.2	152.76	3911	5975
1985.3	152.91	3985	6093
1985.4	153.07	4065	6222
1986.1	153.22	4163	6378
1986.2	153.37	4274	6555
1986.3	153.53	4384	6731
1986.4	153.69	4501	6917



Markstein is financial economist and manager of U.S. Financial Forecasting at Chase Econometrics, Bala Cynwyd, Pennsylvania, where he has responsibility for the financial forecasts of the U.S. economy.

Table 2

Credit Demand Projections
($ Billions)

Date	Federal Government	State & Local Government	Household
1984.1	1242	405	1889
1984.2	1258	412	1946
1984.3	1302	415	2015
1984.4	1367	416	2063
1985.1	1434	426	2148
1985.2	1450	437	2239
1985.3	1500	442	2335
1985.4	1574	445	2394
1986.1	1645	454	2501
1986.2	1652	468	2609
1986.3	1696	475	2725
1986.4	1764	479	2808

Date	Nonfinancial Corporations	Other Nonfinancial Business	Total Domestic Nonfinancial Credit Demand
1984.1	1173	688	5397
1984.2	1189	705	5510
1984.3	1224	719	5675
1984.4	1252	737	5835
1985.1	1294	763	6065
1985.2	1323	784	6234
1985.3	1371	809	6457
1985.4	1408	823	6643
1986.1	1459	860	6918
1986.2	1489	887	7105
1986.3	1534	910	7340
1986.4	1581	931	7562

Table 3

Credit Supply and Demand
($ Billions)

Date	Total Domestic Nonfinancial Credit Supply	Total Domestic Nonfinancial Credit Demand	Supply-Demand
1984.1	5348	5397	−49
1984.2	5469	5510	−41
1984.3	5602	5675	−73
1984.4	5731	5835	−104
1985.1	5861	6065	−204
1985.2	5975	6234	−259
1985.3	6093	6457	−364
1985.4	6222	6643	−421
1986.1	6378	6918	−540
1986.2	6555	7105	−550
1986.3	6731	7340	−609
1986.4	6917	7562	−645

Friedman has tested the stability of the overall ratio—domestic nonfinancial debt to GNP—and found it to be as good as or better than many comparable measures, including the money supply-GNP relationship. Further, when he extended his study to four other major industrial countries (Canada, Germany, Japan, and the United Kingdom) he found similar overall stability in the credit ratio.[2]

Based on this strong historical evidence, the credit supply may be forecast by extrapolating the credit ratio through the end of 1986. Table 1 presents historical and extrapolated values along with GNP figures (including forecast figures) and the implicit total domestic nonfinancial credit levels. This extrapolation is the supply of domestic nonfinancial credit in the sense that it represents the willingness of the economy to hold domestic nonfinancial debt. The extrapolation lies within the Federal Reserve's target range of growth for domestic nonfinancial credit.

The demand for credit

The projection for credit demand is based on experience coming out of the 1973-75 recession. The choice of this period was made for two reasons. First, the 1981-82 and 1973-75 recessions were very similar. They were of equal length (17 months, peak to trough) and of similar severity. Second, the recovery phase from the 1981-82 recession has had a similar profile to that after the 1973-75 recession and is forecast to proceed on a similar path.

The quarterly growth rates of nonfinancial debt for households, corporations, non-corporate businesses, and state and local government for the 1975-80 recovery period were calculated. A projection of the level of debt for each sector through the end of 1986 was made using these rates. To calculate the federal nonfinancial debt, the deficit for each quarter was added to the level of U.S. debt. Table 2 shows the individual sector projections and the total credit demand.

continued

Table 4

Net Funds Raised in the Credit Market

Date	Total Domestic Nonfinancial Borrowing Bil. of $	Federal Government Borrowing Bil. of $	Federal Government Borrowing % of Total	Private Domestic Borrowing Bil. of $	Private Domestic Borrowing % of Total
1973	188.2	8.3	4.4	180.0	95.6
1974	175.1	11.8	6.7	163.3	93.3
1975	194.6	85.4	43.9	109.2	56.1
1976	243.8	69.5	28.5	174.3	71.5
1977	321.4	56.8	17.7	264.7	82.3
1978	364.0	53.7	14.7	310.4	85.3
1979	386.1	37.4	9.7	348.8	90.3
1980	342.6	79.2	23.1	263.4	76.9
1981	377.0	87.4	23.2	289.6	76.8
1982	386.3	161.3	41.7	225.0	58.3
1983	508.8	186.6	36.7	322.3	63.3

Source: Flow of Funds

Table 4a

Private Domestic Borrowing

Date	State & Local Bil. of $	State & Local % of Total	Household Bil. of $	Household % of Total
1973	12.3	6.5	79.6	42.3
1974	15.5	8.9	53.7	30.7
1975	13.7	7.1	51.9	26.7
1976	15.2	6.2	90.5	37.1
1977	15.4	4.8	137.6	42.8
1978	19.1	5.3	167.7	46.1
1979	20.5	5.3	177.0	45.9
1980	20.3	5.9	119.9	35.0
1981	9.7	2.6	125.4	33.3
1982	36.3	9.4	80.2	20.8
1983	36.0	7.1	157.8	31.0

Source: Flow of Funds

Date	Corp. Business Bil. of $	Corp. Business % of Total	Noncorp. Business Bil. of $	Noncorp. Business % of Total
1973	48.8	25.9	39.3	20.9
1974	66.2	37.8	27.9	16.0
1975	21.0	10.8	22.5	11.6
1976	43.0	17.6	25.6	10.5
1977	71.2	22.1	40.6	12.6
1978	78.5	21.6	45.0	12.4
1979	95.4	24.7	55.8	14.5
1980	75.5	22.0	47.6	13.9
1981	98.8	26.2	55.8	14.8
1982	75.6	19.6	32.9	8.5
1983	56.9	11.2	71.6	14.1

Supply and demand

The results of the supply and demand projections are summarized in Table 3. The third column of the table is the difference between supply and demand. Of course, on an *ex post facto* basis, the amount lent and the amount borrowed are always equal. Thus, the third column represents a measure of the pressure on interest rates. Excess supply (a positive value) represents downward pressure on interest rates, and excess demand (a negative number) upward pressure. The changes in rates would have the usual effect—lower rates producing increased demand and reduced supply, higher rates the reverse. Thus Table 3 indicates that upward pressure on interest rates may begin to be felt in mid-1984 and may continue to build progressively throughout 1985.

Given the method of deriving these estimates, excess demand of under $75 billion does not necessarily represent a serious mismatch of supply and demand. If excess demand of that magnitude is not due to statistical error, a relatively small increase in interest rates would bring about equilibrium with only minor private sector crowding out.

Excess demand of over $75 billion probably does represent true upward pressure on interest rates. Clearly, by 1985, excess demand grows to the point that interest rates will have to rise. Figure 2 shows the supply and demand graphs in terms of their relationship to GNP.

Why does pressure on credit markets build in 1984 and 1985 when similar pressure did not occur in 1976-77? The answer is, of course, federal deficits. Taking the ratio of deficits to GNP, in both the 1973-75 recession and the 1981-82 recession, deficits peaked at just over 6 percent of GNP. However, where in the recovery following the 1973-75 recession deficits quickly fell back to the 1-2 percent range, Chase Econometrics' projections are for deficits to remain above 4 percent of GNP through 1985. These estimates are in agreement with those of the Reagan Administration and the Congressional

continued

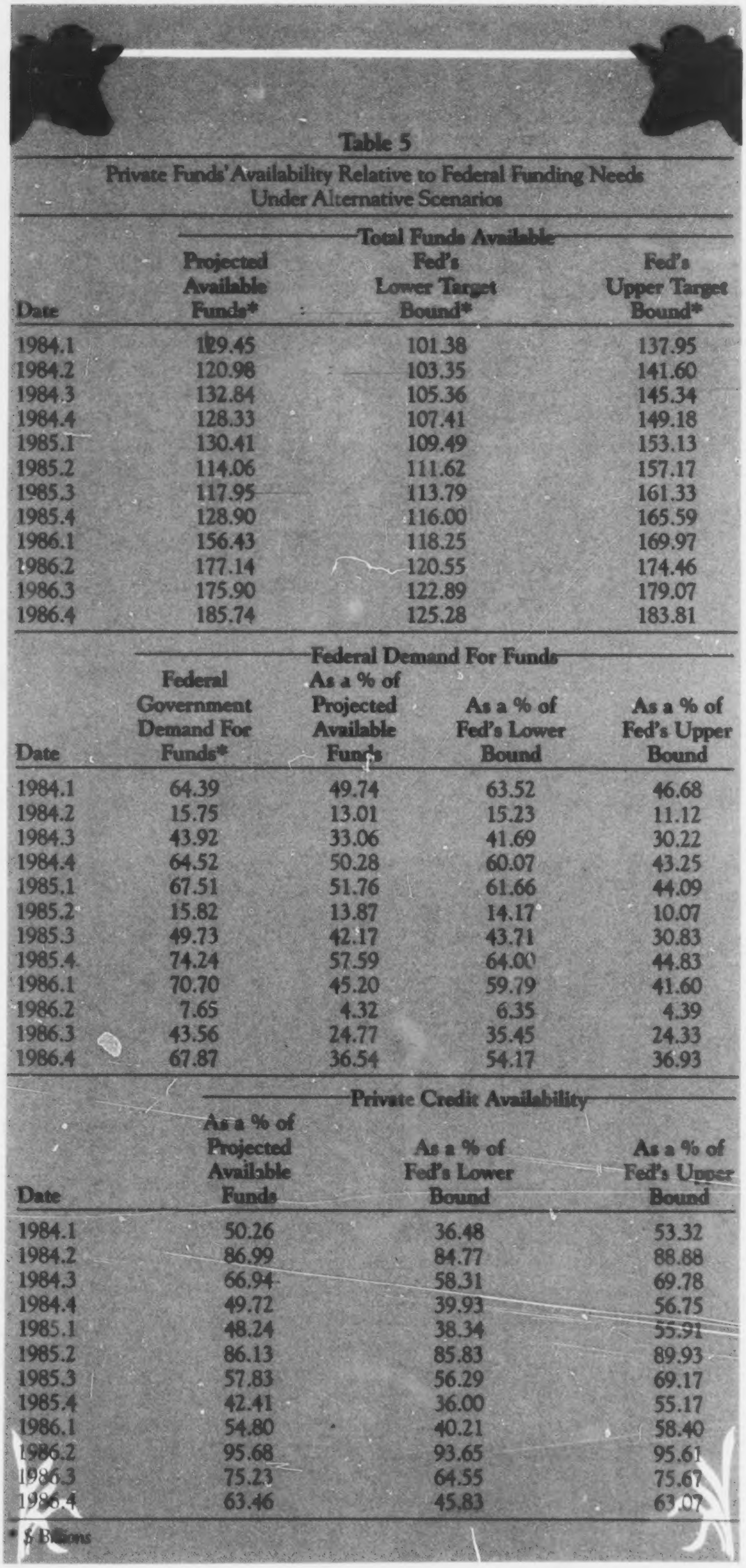


Table 5

Private Funds' Availability Relative to Federal Funding Needs Under Alternative Scenarios

	Total Funds Available		
Date	Projected Available Funds*	Fed's Lower Target Bound*	Fed's Upper Target Bound*
1984.1	129.45	101.38	137.95
1984.2	120.98	103.35	141.60
1984.3	132.84	105.36	145.34
1984.4	128.33	107.41	149.18
1985.1	130.41	109.49	153.13
1985.2	114.06	111.62	157.17
1985.3	117.95	113.79	161.33
1985.4	128.90	116.00	165.59
1986.1	156.43	118.25	169.97
1986.2	177.14	120.55	174.46
1986.3	175.90	122.89	179.07
1986.4	185.74	125.28	183.81

	Federal Demand For Funds			
Date	Federal Government Demand For Funds*	As a % of Projected Available Funds	As a % of Fed's Lower Bound	As a % of Fed's Upper Bound
1984.1	64.39	49.74	63.52	46.68
1984.2	15.75	13.01	15.23	11.12
1984.3	43.92	33.06	41.69	30.22
1984.4	64.52	50.28	60.07	43.25
1985.1	67.51	51.76	61.66	44.09
1985.2	15.82	13.87	14.17	10.07
1985.3	49.73	42.17	43.71	30.83
1985.4	74.24	57.59	64.00	44.83
1986.1	70.70	45.20	59.79	41.60
1986.2	7.65	4.32	6.35	4.39
1986.3	43.56	24.77	35.45	24.33
1986.4	67.87	36.54	54.17	36.93

	Private Credit Availability		
Date	As a % of Projected Available Funds	As a % of Fed's Lower Bound	As a % of Fed's Upper Bound
1984.1	50.26	36.48	53.32
1984.2	86.99	84.77	88.88
1984.3	66.94	58.31	69.78
1984.4	49.72	39.93	56.75
1985.1	48.24	38.34	55.91
1985.2	86.13	85.83	89.93
1985.3	57.83	56.29	69.17
1985.4	42.41	36.00	55.17
1986.1	54.80	40.21	58.40
1986.2	95.68	93.65	95.61
1986.3	75.23	64.55	75.67
1986.4	63.46	45.83	63.07

* $ Billions

Budget Office. Even more disquieting, our forecast is not changed appreciably by altering the growth path for GNP.

Sensitivity of estimates

The nature of the data and the methodology for this study suggest that the specific numbers and timing could vary somewhat. Hence, caution is required in their application. Before addressing this point more directly, it is useful to look at the problem from a different perspective. Table 4 presents a table of net new funds raised (excluding equity) from 1973 through 1983 by domestic borrowers divided into federal government borrowing and private borrowing (which includes state and local government borrowing) along with each sector's percentage share of total funds raised. Table 4a provides a breakdown of private borrowing by major sector and each sector's percentage of total domestic nonfinancial funds raised. Table 5 shows the percentage of funds available for nonfederal borrowing under different assumptions.

The assumptions are:

- credit supplied grows by the amount projected above,
- available credit grows according to the Federal Reserve Board's target range of growth for domestic nonfinancial credit.

The latter is broken into two cases:

- available credit grows according to the Fed's 1984 lower target bound of 8 percent, and
- available credit grows according to the Fed's 1984 upper target bound of 11 percent.

For each assumption the federal government's demand for funds as a percentage of total available funds has been calculated to determine the residual percentage of funds available for private borrowing needs. Clearly pressure builds throughout 1985.

Accuracy of supply estimates

The projection for supply may be a little optimistic because the figures key off of the data for fourth quarter 1983. Because the ratio of domestic nonfinancial debt to GNP was high in that period

continued

due to the cyclical effects, there is a slight upward bias to the projections. Thus from the supply side, it is more likely that the pressure on the financial markets will build slightly sooner rather than later.

On the other hand, there is a small chance that the estimate may prove too low because foreign inflows and a higher personal savings rate might add to the supply of funds, moving the pressure to a later date or eliminating it all together. The latter seems very unlikely, however. At best such developments might delay the problem by a quarter or two. Recent foreign purchases of Treasury securities have not exceeded the 1977 figure of $3[illegible].5 billion, which represents only about 15 percent of the 1983 deficit and an even smaller percentage of the anticipated shortfall between supply and demand for credit in 1985.

The net inflows of foreign funds to the credit market have not been much different in absolute size—the top figure to date is the 1981 inflow of about $60 billion. About $31 billion came in from foreigners in 1983 (about $17 billion of that to purchase Treasury securities). An increase in savings also would do little to help. This can be seen in Table 6, which is a reproduction of Table 13 from the article "Federal Deficits and Private Credit Demands: Economic Impact Analysis" by James R. Capra in the Federal Reserve Bank of New York Quarterly Review for Summer 1983.

Accuracy of demand estimates

On the demand side, estimates could be a bit too high, because the present recovery may prove weaker than the recovery from the 1973-75 recession, although to date it has proved to be remarkably strong. This would push the credit conflict to a later date.

Alternatively, the estimate of credit demand could possibly prove too low because of the tax cuts. With the exception of the small 1975 tax rebates, there were no tax cuts in the recovery following the 1973-75 recession-hence our estimates do not account for them. Together with pent-up consumer demand for durable goods, the cuts might increase demand and move the problem to an earlier date.

Table 6

Saving as a Percentage of GNP
(Calendar Year)

Item	1961 to 1970	1971 to 1980	1985 Projection
Gross Private Saving	**16.4**	**16.9**	**17.5**
Personal	4.7	4.9	4.0
Business	11.7	12.0	13.5
Total Use of Saving	**16.4**	**16.9**	**17.5**
Less:			
Financing the Federal Deficit	0.5	1.9	5.9
Other*	0.5	–0.9	–2.6
Equals:			
Amount Available For Gross Private Investments	15.4	15.9	14.2
Addendum:			
Capital Consumption Allowance	8.4	9.9	11.0
Amount Available For Net New Private Investments	**7.0**	**6.0**	**3.2**

**Includes net foreign investment and state and local deficits.*
Source: Federal Reserve Bank of New York.

Accuracy of timing estimates

The timing of pressures in the credit market outlined in this analysis represents the most likely projection. While crowding out could occur in the credit markets at an earlier date, it is unlikely to be postponed to a later period. A reasonable subjective probability distribution would be that there is a 65 percent probability that crowding out will begin to occur in early 1985; a 25 percent probability it will begin to occur by mid-1984; an 8 percent probability it will not occur until 1986; and a 2 percent probability it will not occur at all.

Pressures on the credit markets are likely to rise in early 1985 and increase throughout the year. Available domestic nonfinancial credit was estimated by extrapolating from its historical relationship to GNP. Demand for credit was projected based on the experience following the 1973-75 recession and the forecast of the federal deficit. The economy should be able to accommodate credit demands through 1984, but after that demand pressures will grow progressively higher.

The result of growing credit demand will be higher interest rates later in 1984 and in the first half of 1985. By the end of 1984, Treasury bills will be trading near 10.5 percent on a yield basis, up about 50 basis points from current levels. Long-term Treasuries will move up about the same amount from current levels, bringing them just above 13 percent. Rates are expected to peak during the first half of 1985 at levels as high as 13 percent for Treasury bills and 14.5 percent for long-term bonds. ☐

---

[1] *Benjamin M. Friedman, "Debt and Economic Activity in the United States," National Bureau of Economic Research, Reprint No. 278.*

[2] *Benjamin M. Friedman, "Money, Credit and Nonfinancial Economic Activity: An Empirical Study of Five Countries," National Bureau of Economic Research, Working Paper No. 1033.*

MORTGAGE MARKETS AND MORTGAGE-RELATED SECURITIES:

DEVELOPMENTS AND IMPLICATIONS

Dr. Frederick E. Flick

The recovery of the housing market in 1983 resulted primarily from a 300 basis point drop in the mortgage interest rate over the latter part of 1982. This decline in mortgage financing costs caused privately owned housing starts to surge to 1,701,300 units in 1983—60 percent higher than the 1982 level of 1,062,200 units and the highest annual total since 1979. In a slightly less dramatic rally, sales of existing single-family homes totaled 2.72 million units in 1983, an increase of 36.6 percent over the dismal 1.99 million level of 1982.

Although the interest rate decline was the most influential factor spurring the boom of 1983, structural changes within the savings and loan industry and changes within the entire mortgage lending system also played a major role. The most important of these system-wide changes was the increased use of the secondary market by primary lenders and the introduction of new mortgage-related securities. These developments appear to have permanently changed the relationship of primary mortgage lending to the secondary market.

The recovery

Originations of one- to four-family (nonfarm) mortgage loans rose to an all-time high of $199.4 billion in 1983. In fact, this record-setting volume was greater than the sum of total originations for both 1981 and 1982. Although most institutional mortgage lenders substantially increased their volume of residential loan originations in 1983, as a group, savings and loan associations (S&Ls) bounced back from a 1982 level of $34.8 billion to just over $81.5 billion in 1983. This volume amounted to a 134 percent increase over 1982 and pushed their 1983 relative percentage share of residential originations to 41 percent of the market.

Mortgage bankers also staged a solid 1983 performance, originating almost $60 billion of loans. This amounted to an increase of 114 percent over their 1982 volume and was an all-time high for their industry. Commercial banks and mutual savings banks also produced sound comebacks with each just about doubling its origination volume over the previous year. Tables I(a) and I(b) document these trends for the dollar

continued

Table I (a)

Total Originations of One- to Four-Family
(Nonfarm) Mortgage Loans: 1970–1983
(Dollars in Billions)

Year	Savings and Loan Associations	Mutual Savings Banks	Mortgage Companies	Commercial Banks	Others	Total
1970	14.81	2.15	8.91	7.80	1.92	35.59
1971	26.60	3.54	12.49	12.60	2.56	57.79
1972	36.74	5.05	13.33	17.71	3.04	75.86
1973	38.44	5.91	12.66	18.78	3.33	79.13
1974	30.93	3.93	13.03	16.13	3.49	67.51
1975	41.24	4.33	13.99	14.45	3.90	77.91
1976	61.90	6.43	15.74	24.50	4.21	112.79
1977	86.30	8.66	25.65	36.68	4.68	161.97
1978	89.95	9.38	34.45	43.92	7.33	185.04
1979	82.83	8.96	45.26	40.66	8.89	186.60
1980	61.10	5.44	29.42	28.78	9.04	133.77
1981	41.98	4.02	23.96	21.69	6.56	98.21
1982	34.78	4.00	28.00	25.19	4.98	96.95
1983	81.52	10.73	59.93	42.36	4.91	199.45

Table I (b)

Market Shares of Originations of
One- to Four-Family Mortgage Loans: 1970–1983
(Percent)

Year	Savings and Loan Associations	Mutual Savings Banks	Mortgage Companies	Commercial Banks	Others
1970	41.6 %	6.0 %	25.0 %	21.9 %	5.4 %
1971	46.0	6.1	21.6	21.8	4.4
1972	48.4	6.7	17.6	23.3	4.0
1973	48.6	7.5	16.0	23.7	4.2
1974	45.8	5.8	19.3	23.9	5.2
1975	52.9	5.6	18.0	18.5	5.0
1976	54.9	5.7	14.0	21.7	3.7
1977	53.3	5.3	15.8	22.6	2.9
1978	48.6	5.1	18.6	23.7	4.0
1979	44.4	4.8	24.3	21.8	4.8
1980	45.7	4.1	22.0	21.5	6.8
1981	42.7	4.1	24.4	22.1	6.7
1982	35.9	4.1	28.9	26.0	5.1
1983	40.9	5.4	30.0	21.2	2.5

Source: *The Supply of Mortgage Credit 1970–1979*; and selected reports of the "Survey of Mortgage Lending Activity," for the Fourth Quarter 1981, Fourth Quarter 1982, and for the year 1983.

Office of Financial Management, U.S. Department of Housing and Urban Development, Washington, D.C.

volume and percentage shares of residential loans made by these four major lender types.

Frederick E. Flick is the director of Economic Analysis at the National Association of Realtors, Washington D.C. Prior to assuming that position, he was a research economist at the U.S. Department of Housing and Urban Development.

Money Market Deposit Accounts

An important factor in supplying the thrifts with increased loanable funds in 1983 was the introduction of money market deposit accounts (MMDAs) in the spring of 1982. According to the FHLBB,[1] these accounts provided almost $34 billion in deposits in 1982 and, by the end of 1983, outstanding MMDA balances totaled $104.3 billion. MMDAs accounted for about 17 percent of the $617.8 billion in total thrift deposits outstanding at the close of 1983. The FHLBB sources and uses of funds data show a remarkable improvement in S&L liquidity over the 1981-1982 period. Although thrifts reduced their holdings of liquid assets in the last half of 1983, year-end holdings totaled $76.6 billion (10.2 percent of assets)

continued

compared with $68.9 billion (9.9 percent of assets) at the end of 1982. The 1983 end-of-year liquidity ratio (cash and other liquid assets as a percent of deposits and short-term borrowings) was 11.46 percent—6.46 percent above the 5 percent required by FHLBB regulations. At the end of the fourth quarter of 1982, it was 11.29 percent, while a year prior to that it had been only 8.47 percent.

Restructuring

The restructuring of S&L portfolios that began in 1981, was the major factor that eventually allowed the increased volume of thrift mortgage lending in 1982 and 1983.[2] Through this restructuring process, which is still continuing, the S&Ls learned to rely more extensively on the secondary market. The programs of the Federal Home Loan Mortgage Corporation (FHLMC/"Freddie Mac") and the Federal National Mortgage Association (FNMA/"Fannie Mae") provided greatly needed assistance in helping them to decrease their holdings of low-yielding mortgage loans. As part of their restructuring operations, low-yielding, seasoned mortgages were either sold for cash or "swapped" for Freddie Mac Participation Certificates (PCs) or Fannie Mae Conventional Mortgage-Backed Securities (CMBSs). These securities could be used both to satisfy regulatory standards for mortgage holdings and to increase S&L balance sheet liquidity. Furthermore, mortgage-backed securities can be used as collateral for borrowing in the money markets (i.e., through term repurchase agreements). The FHLMC Guarantor swap programs—amounting to $21.94 billion in 1982 and $15.54 billion in 1983—were an important contributor to thrift liquidity. Fannie Mae established a swap program for its CMBSs that amounted to $10.9 billion in 1982 and $9.03 billion in 1983. Freddie Mac also assisted thrifts through direct cash purchases of loans totalling $2.2 billion and 4.2 billion in 1982 and 1983, respectively. The Fannie Mae cash program supplied $3.1 billion in 1982 and $4.3 billion in 1983.[3]

> **"The two most obvious advantages to the CMO are the bond-like cash flow characteristics of the securities and the availability of several maturity classes."**

The power to attract new savings and the restructuring of portfolios through swaps and loan sales were clearly the most important operational developments accounting for the renewed health of the thrifts. However, there were several other industry-wide changes that aided this restructuring and led to the improved performance of the S&Ls in 1982 and 1983. These changes included mergers of S&Ls to boost net worth, conversions of charters from mutual to stock ownership to raise equity, and liberalized Bank Board regulations allowing the deferral of capital losses from the sales of low-coupon mortgages. Nevertheless, the power to attract new savings and the overall portfolio changes were the major factors enabling the S&Ls to turn the corner. As a consequence of these operations, by late 1982, the average return on the mortgage portfolio began to exceed the average cost of funds, and the thrifts were on their way to more profitable days.

A record volume

The year 1983 set a new record for the use of secondary markets through the issuance of mortgage-backed securities. Originations of pass-throughs by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Government National Mortgage Association (GNMA/"Ginnie Mae") exceeded 83.5 billion in 1983. For 1982, the volume of pass-throughs issued by these three agencies amounted to $54.15 billion. The volume of mortgage-backed securities issued in 1983 accounted for 42 percent of the volume of one-to four-family originations; and, in 1982, pass-throughs were 56 percent of new originations. Although the issuance of mortgage-backed securities as a percent of originations was lower in 1983 than in 1982, the stepped-up issuance volume for 1983 demonstrates the substantially higher reliance on the traditional secondary market mechanisms by primary market lenders.

This increasing reliance of primary market lenders on the secondary mortgage markets is dramatically shown by comparing the volume of mortgage sales and originations over the past few years. The Department of Housing And Urban Development (HUD) mortgage lending survey provides estimates of gross flows of new mortgage originations, purchases, and sales by mortgage market participants. These participants include the major primary market lenders, federal credit agencies, real estate investment trusts, life insurance companies, mortgage pools, and others. Unfortunately, there is some double-counting of transaction volume across some of the participant categories, and it is not possible to "net out" specific flows among those categories.[4]

While these data provide imperfect and even somewhat incomplete measures of secondary market activity, we can use them to construct a "ballpark" measure of the size of the secondary market relative to the primary market. Table II provides a time trend of total mortgage sales and total originations since 1970. The simple ratio of sales to originations can be interpreted as a broad, albeit crude, measure of the size of the secondary market relative to the primary market. While this measure includes sales of seasoned loans, a rough estimate of the percentage of new originations sold can be obtained by adjusting the sales volume for the FHLMC and

continued

Table II

Ratio of Total Mortgage Sales to Originations—
One- to Four-Family (Nonfarm) Mortgage Loans: 1970–1983

Year	Total Sales ($s in Billions)	Total Originations ($s in Billions)	Ratio of Sales to Originations (%)
1970	$ 14.19	$ 35.59	39.9 %
1971	18.53	57.79	32.1
1972	24.13	75.86	31.8
1973	24.86	79.13	31.4
1974	23.11	67.51	34.2
1975	29.65	77.91	38.1
1976	40.93	112.79	36.3
1977	55.36	161.97	34.2
1978	67.76	185.04	36.6
1979	76.59	186.60	41.0
1980	65.84	133.77	49.2
1981	53.19	98.21	54.2/51.8*
1982	100.57	96.95	103.7/69.9*
1983	148.12	199.45	74.3/61.9*

*Ratio adjusted for FHLMC and FNMA swaps to approximate the ratio of current year originations sold in the secondary market in those years.

Source: *The Supply of Mortgage Credit 1970–1979;* and selected reports of the "Survey of Mortgage Lending Activity," for the Fourth Quarter 1981, Fourth Quarter 1982, and for the year 1983.
Office of Financial Management, U.S. Department of Housing and Urban Development, Washington, D.C.

FNMA swaps in 1981, 1982, and 1983. These ratios for new loan sales are probably on the high side, and better estimates could probably be obtained by using yearly issuance figures for GNMAs (Ginnie Mae mortgage-backed securities) and the cash program for PCs and CMBSs in the calculation.

Based on the information presented in Table II, the secondary market increased to about 40 percent of the primary market by the end of the 1970s and by 1980 accounted for about one-half of the primary market. In 1982, the secondary market roughly equaled the primary market, but it slipped from this level in 1983. As far as estimating the percentage of new originations that are sold to the secondary market, after adjustment for FHLMC and FNMA swaps (which jointly totaled $2.31, $32.84, and $27.57 billions in 1981, 1982, and 1983, respectively) the figures suggest roughly 60 to 70 percent of new loans were sold in 1982 and 1983.

The fact that there is some double-counting in the sales figures still means that both sets of estimates are a bit high. Although it is difficult to estimate accurately the volume of new originations sold to secondary market investors, it is clear that these markets have grown substantially in both absolute size and relative volumes. In fact, since 1979, gross flows of sales have more than doubled, and the unadjusted ratio has almost doubled. According to these adjusted figures (there were no swaps prior to 1981), the sales-to-originations ratio has increased by 50 percent. Even if these estimates are a bit optimistic, the obvious trend is toward increased use and development of the secondary markets. Indeed, these calculations suggest that for the last couple of years, the entire housing finance system has been functioning in a mortgage banking mode of operation.

Collateralized mortgage obligation bonds

Not only was 1983 a high volume year for the traditional types of mortgage-backed securities, but it was a watershed year for the introduction of the first generation of fast-pay/slow-pay mortgage-backed bonds. In June 1983, the Federal Home Loan Mortgage Corporation introduced the first mortgage-backed bond, known as a Collateralized Mortgage Obligation (CMO). The first CMO was collateralized by $1 billion in recently originated conventional single-family mortgages. Since June 1983, there have been more than twenty offerings of CMOs in amounts ranging from $76 million to $1.25 billion. While four of the CMOs were offered by Freddie Mac, most of the others were issued by subsidiaries of home builders, mortgage bankers, and investment banking firms. Private-issue CMOs have typically been collateralized by seasoned GNMA pass-throughs (GNMAs) or by Fannie Mae CMBSs. The GNMAs have usually been secured by mortgages carrying interest rates of 10 to 13.5 percent. Moreover, although there has been a private CMO issue exceeding $1 billion, they have tended to be smaller in size than the Freddie Mac offerings.

The FHLMC CMO pools a very large number of loans and offers either three or four securities of varying maturities and coupons. The pool pays semiannual interest and principal from a sinking fund, directing principal prepayments to the security with the shortest stated maturity. The maximum weighted average lives of the bonds in the version with three securities (Series A and B) are 3.2, 8.6, and 20.4 years. Since these securities were introduced in 1983, they have traded at average yield spreads ranging from 20 to 90 basis points over the comparable maturity Treasury bond; however, there has been some narrowing in these yield spreads in early 1984. The two most recent FHLMC CMOs (Series C and D issued in January and April 1984) have included an interest accrual of zero-bond (16.8 or 18.8 years weighted average life) as the fourth class of securities. This bond shortens the weighted average life of each of the other three securities to 1.8, 4.3, and 7.8 years, respectively. Interest on the fourth class of bonds accrues but is not paid until the other three classes are fully retired.

The most important difference between the FHLMC and the private-issue CMOs is that FHLMC guarantees a repayment schedule for principal, usually at 75 percent or 100 percent of the FHA Section 203(b) experience for defaults

continued

and prepayments. Freddie Mac pledges to make semiannual sinking fund payments of a minimum scheduled amount, based on percentages of the outstanding balance on the bonds. If principal prepayments exceed the minimum schedule, they are passed through to the bondholders. However, if the principal payments fall short of the minimum schedule, FHLMC will make up the difference. The private-issue CMOs generally do not provide mandatory sinking fund payments, and the issuers only pledge that the cash flow from the collateral will be used to pay off the debt. Nevertheless, 1983 offerings of private CMOs totaled over $2.97 billion. Currently, issues of CMOs total more than $9.9 billion, and approximately $4.7 billion were outstanding at the end of 1983.[5]

The two most obvious advantages to the CMO are the bond-like cash flow characteristics of the securities and the availability of several maturity classes. Offering securities of various maturities allows one CMO to "tap" several different segments of financial markets at the same time, attracting investors who otherwise would not buy GNMAs, PCs, or CMBSs. The large pool FHLMC CMO, with its semiannual payments and sinking fund feature, has great appeal to long-term investors such as pension funds and life insurance companies.

Analyses performed by the research department at FHLMC[6] show that commercial banks, savings and loan associations, and insurance companies purchased the shorter maturity FHLMC CMO securities. Pension funds were the largest purchasers of the intermediate and long-term securities. These investors were 29 percent of CMO purchasers, while they are thought to be only 8 percent of PC investors. Commercial banks, at 18 percent, were the second most important investors in CMOs, followed by investment advisors (15 percent), thrifts (14 percent), and insurance companies (13 percent). As far as PCs are concerned, thrifts are the largest holders at 56 percent, followed by pension funds and insurance companies each with approximately 8 percent.

> **"The power to attract new savings and the restructuring of portfolios through swaps and loan sales were clearly the most important operational developments accounting for the renewed health of the thrifts."**

Determining the yield

CMOs offer higher yields than other investments of similar quality and maturity because the actual life of the bond and, consequently, the actual yield to maturity are not perfectly predictable. However, CMOs are able to offer more certainty than traditional pass-throughs because they are ultimately backed by very large pools of mortgages.[7] The use of a large mortgage pool provides a sufficiently large number of loans such that the law of large numbers will ensure prepayment according to some standard or, at least, guarantee some consistency in the variation in the prepayment flows. However, although CMOs offer substantial advantages over pass-throughs, as long-term mortgage investments their actual yields to maturity are still prone to the uncertainties associated with the effects of unanticipated prepayment of principal by the underlying mortgages.

CMO quoted trading yields and yield spreads (over comparable Treasuries) are partly determined by an assumed weighted average life for each security class. Thus, the assumed weighted average life (WAL) substantially affects the yield quoted on the security at purchase or settlement. On the other hand, the actual life of the security depends on the actual rate of prepayment, which will determine the instrument's actual yield to maturity. Recently, analysts at Salomon Brothers Inc have questioned the assumption of 100 percent FHA experience, which has been used in calculating the yields on several of the private issue CMOs. They provide evidence that the GNMA collateral backing some of the private issue CMOs seems to be paying closer to an assumption of 75 percent FHA. The use of a 100 percent FHA assumption, other things being equal, will tend to increase the yield and yield spread, making it seem like a more attractive investment than it may actually be.[8] Regarding the FHLMC CMOs, the only available prepayment data are for the first semiannual payments on the shortest maturity securities in the first two Freddie Mac CMOs. They show that the first two payments have occured at rates of 160 percent and 87 percent of FHA.[9]

The jury is still out

The bottom line is that mortgage-related securities will be unavoidably subject to unanticipated principal prepayment behavior regardless of the size of the pool or the extent of the detail of knowledge on prior prepayment experience. The FHLMC CMOs and private issue CMOs have been effectively marketed to investors who otherwise may not have purchased pass-through types of mortgage-backed securities. However, it is still not clear whether CMOs will be perceived over the long haul to have the proper characteristics to be strong competitors to corporate bonds in the battle for the long-term investment dollar. The only way a mortgage-related security can approximate a bond pay-out with certainty is if the mortgage bond allows active management of the cash flow and provides certain features that maximize call protection for the investor.

The TIMs proposal

In 1983, the Reagan Administration proposed legislation that would provide incentives for increased issuance of mortgage-backed bonds by private issuers. The Trusts for Investment in Mortgages (TIMs) proposal involved develop-

continued

ing a new set of regulatory and tax rules within which new mortgage-related securities could be developed. Currently, in order for mortgage pass-throughs to avoid taxation at the pool level, they must qualify as a Grantor Trust requiring that they comply with one of several publicly written tax rulings issued by the Treasury Department. Otherwise, a special private ruling must be obtained. The TIMs proposals would obviate the need for these special rulings and would allow TIMs issuers to have broad authority in designing mortgage-backed securities as business trusts. Under TIMs, mortgage securities will offer several features that appeal to the needs of long-term investors. These features include active management of cash flows to achieve a maximum of call protection for investors, semiannual payment of interest and annual payment of principal, multiple classes of securities, and other features that would enhance the bond-like nature of these instruments.[10] It is apparent that passage of some type of TIMs legislation would create the opportunity to structure mortgage-backed securities with payment characteristics similar to bonds.

Recently this legislative proposal was withdrawn, at least partially because of opposition from housing industry groups and the financial community. A major objection to this particular piece of legislation was that it would prohibit FHLMC and FNMA from issuing TIMs-type securities and would not allow federal agency securities or those having a federal guarantee to be used as collateral for TIMs securities. Opposition groups contend this would even restrict FHLMC and FNMA from issuing CMOs. The financial community was opposed to this particular form of TIMs legislation because Wall Street places a high value on agency securities because of the federal backing. It is assumed by the investment community that backing by GNMAs, PCs, or FNMA CMBSs is necessary for triple-A ratings on private issue CMOs. Therefore, even in a world with TIMs-type securities, the financial markets would seem to prefer some federal agency backing for the security.

> **"The long-term future for CMOs backed by GNMAs is almost totally dependent on the volume of FHA and VA business."**

Implications for the future

There have been significant structural changes in the mortgage lending business that will have lasting effects on the behavior of primary market lending institutions, primary market instruments, and mortgage-related securities such as CMOs. In 1983, the thrifts rebounded to mortgage lending levels rivaling those of the late 1970s. Although the structural changes allowed through the Depository Institution Deregulation and Monetary Control Act of 1980 and the Garn-St Germain Act of 1982 gave thrifts the tools to find a closer match between the maturities of their assets and liabilities, they still will increasingly tend to rely on the secondary market. Analysts have pointed to the large volume of housing finance that will be needed until the late 1990s and the projected inability of depository lenders to provide those funds.[11] The housing finance sector will have to go to the financial markets to come up with the funds. Furthermore, from the lender's viewpoint, there are solid advantages to holding mortgage securities instead of whole loans (while still maintaining servicing). Consequently, except in the case of adjustable rate mortgage loans (ARMs), there should be no short-term or long-term decline in thrifts' reliance on secondary mortgage markets.

Future of CMOs

The short-term picture for the issuance of CMOs is much more clouded. For the near-term, the future of CMOs will be determined primarily by the supply of GNMAs and their yield spread over long Treasuries. However, this outcome will be at least partially dependent on the course of interest rates over the next few months. If interest rates continue to rise by the middle of the summer of 1984, there could be further declines in the originations of pool securities as originations of fixed-rate loans level off. The recent increase in the acceptance of ARM loans suggests that a continuing shift into ARMs will depress the issuance of pool securities as interest rates rise.[12]

Another short-term factor analysts feel may limit the issuance of CMOs is the gradually shrinking yield spread between mortgage-backed securities and Treasuries. As these yield spreads decline, Treasuries become more attractive relative to pass-throughs for investors who are concerned with the "quality" of their portfolios. Currently, these differentials range from about 80 percent to 100 basis points, and they have steadily narrowed over the last six months.[13]

Financial analysts speculate that one reason for this narrowing is that investors have been bidding up the prices of GNMAs and FNMA CMBSs (relative to Treasuries) anticipating additional CMO offerings that would be collateralized by these securities. However, a countervailing factor to continued speculation in pass-throughs is the impact of additional CMO offerings on CMO yields relative to pass-throughs. As arbitrage activity in CMOs increases, the yield on the CMO will be driven closer to the yield on the GNMA or FNMA collateral. At some point, the spread to the CMO issuers may not be sufficient to compensate for the various up-front costs and marketing fees on CMOs. Thus, in the near-term, internal market pressures may tend to depress the profitability in issuing these types of obligations.

The long-term future for CMOs backed by GNMAs is almost totally dependent on the volume of FHA and VA business. The removal of the FHA ceiling rate and the recent changes that allow borrowers and lenders to negotiate points and rates should make FHA a

continued

more attractive alternative for both buyers and sellers. This factor should work to increase the volume of FHA and GNMA pass-throughs, helping to maintain the yield spread over Treasuries. Correspondingly, the long-term future for CMOs backed by conventional loans will ultimately be determined by the volume of fixed-rate lending and the perceived benefits of CMO-type securities. The long-term use of adjustable rate mortgages will play an important role regarding the supply of conventional fixed-rate loans. The prepayment experience of the FHLMC CMOs will fill out the other side of the equation.

The major long-term factor that will affect the issuance of present-day conventional CMOs is the ultimate acceptability of adjustable rate mortgages. However, in the long-term ARMs are more likely to be originated and held by lenders instead of making their way into the secondary market as collateral for pass-throughs or bonds. While portfolio lenders such as S&Ls may not need to rely as much on secondary market sales by holding ARMs, non-portfolio lenders will still rely on securitization of mortgage loans. The recent Freddie Mac ARM survey[14] found that 91 percent of mortgage bankers are originating ARMs, along with 83 percent of S&Ls. Obviously, many of these ARMs made by mortgage companies are being sold to private investors. The fact that there is an investor interest in these loans suggests that the future of the secondary market securitization function may also be tied to the development of a pass-through or CMO-type of security backed by adjustable rate loans.

In 1983, the secondary market set a record for the volume of mortgage pass-through securities issued. It also witnessed the introduction of a new type of mortgage-backed bond. This increased reliance by primary mortgage lenders on mortgage securitization should not be expected to decline in the near future. Correspondingly, the ability of the housing finance industry to tap financial markets for needed funds will probably increase in the near-term and long run. Only increased innovation in both primary and secondary market instruments will allow the housing finance industry to compete effectively for the necessary funds over the next decade. ☐

---

[1] See Virginia K. Olin, "Sources and Uses of Funds in the Third Quarter 1983," Journal of the Federal Home Loan Bank Board, November 1983; and "Sources and Uses of Funds in the Fourth Quarter 1983," Journal of the Federal Home Loan Bank Board, April 1984.

[2] For a more complete discussion of portfolio restructuring in the S&L industry, see the two following papers by Joseph Hu of the Bond Market Research group at Salomon Brothers Inc: "The Secondary Residential Mortgage Market—Its Recent Growth and Prospects," (March 1983); and "Major Developments in Housing and Mortgage Finance in 1983," (January 1984).

[3] Kevin E. Villani, "The Secondary Mortgage Markets: What They Are, What They Do, and How to Measure Them," Secondary Mortgage Markets, February 1984, FHLMC.

[4] For example, often mortgage bankers originate loans that are purchased by thrifts for their portfolios. The HUD surveys only provide data on total originations by mortgage bankers or total purchases by thrifts. Therefore, this type of transaction cannot be accurately measured. Moreover, even if we could estimate these flows, it is not clear whether this kind of transaction should be considered as a secondary market sale.

[5] See "Use of CMO Structure Grows Rapidly," Freddie Mac Reports, January 1984.

[6] See footnote 5 and also A. Thomas King and D. Andrukonis, "Who Holds PCs?" Secondary Mortgage Markets, February 1984.

[7] A large FHLMC CMO pool may contain upwards of 15,000 loans, while a typical GNMA with a $2 million principal may contain only 40 to 50 loans. Typical FHLMC PC pools contain about 2,000 to 3,000 loans. For an analytical discussion of the relationship between prepayment and pool size, see Dexter Senft, "Fast-Pay GNMAs: Fact or Fallacy?" Mortgage Banking, September 1981.

[8] The use of a 100 percent FHA assumption, rather than 75 percent FHA, implies faster prepayment. This tends to result in a shorter weighted average life and a higher quoted yield spread relative to the comparable Treasury, especially if the security is assumed to be purchased at a discount. For a detailed analysis of the effects of alternative prepayment assumptions on CMO yields, see Michael Waldman, "A Closer Look At CMO Quoted Yield Spreads," (March 9, 1984), Salomon Brothers Inc, New York.

[9] "CMO Paydowns Can Impact Yield," National Thrift News, April 2, 1984, Vol. 8, No. 19, pp.1, 26.

[10] A good non-technical discussion of TIMs is presented in "Mortgage-Related Securities—Review and Comment—Special Report, March 15, 1983," a memorandum by the Fixed Income Research Department of The First Boston Corporation, New York.

[11] Dwight M. Jaffee and Kenneth T. Rosen, "The Demand for Housing and Mortgage Credit: The Mortgage Credit Gap Problem," Housing Finance in the Eighties: Issues and Options, Papers and Proceedings, The Federal National Mortgage Association, May 1981.

[12] The monthly Federal Home Loan Bank Board surveys showed that adjustable rate mortgages were originated at an average monthly rate of 37 percent of originations by all lender types in 1983; however, in the last quarter, the average monthly rate increased to 53 percent of originations. These surveys exclude assumptions, refinances, and FHA/VA originations.

[13] As of May 25, 1984, seasoned GNMA's (13 percent coupon), FNMA CMBSs (13.5 percent), FHLMC PCs (13.5 percent), and Norwest Conventional Pass-Throughs (12-1/8 percent) were trading at yield spreads of 82, 84, 79, and 85 basis points, respectively, above a seasoned 10-year Treasury. Over the previous six months, the spreads for these four securities averaged 104, 128, 119 and 102 basis points, respectively. Over the same period, these four securities traded at maximum spreads of 143, 180, 169, and 151 basis points, respectively. Source: "Biweekly Mortgage Market Roundup (May 14-25) May 29, 1984," Bond Market Research Department, Salomon Brothers Inc, New York.

[14] "What Makes An ARM Successful? A Report on the Market for Adjustable Rate Mortgages," Federal Home Loan Mortgage Corporation, Publication No. 53C.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

May 18, 1984

The moderate level of economic activity in late 1983 rebounded in the first quarter of 1984 to an 8.8 percent rate of growth. This increase in the first quarter output was chiefly due to large increases in expenditures for personal consumption plus investment by business in inventory. Most observers had expected the moderate rate of economic activity to continue, and until data showing a deceleration in growth are published, renewed fears of long-term inflation will have a negative impact on the investment markets. While the data released in March 1984 led observers to predict declines in interest rates following less restrictive Federal Reserve policies, what occurred in March was further policy action to tighten credit availability.

Recently released statistics do not demonstrate cause for optimism that the Fed will loosen its hold on money and credit in the next several months. Its principal objective at present is the maintenance of price stability. Less restrictive money growth, without a slowing of overall real growth, would only add to a resurgence of an inflationary climate. The Fed, without a doubt, is willing to err on the side of caution at this juncture.

Expenditures by both consumers and business have continued in recent months. The early pent-up demand for consumer goods that was demonstrated early in 1983 apparently has not yet worked through the economy. Increases in employment and earnings have thus far sustained the pace of spending beyond that which was earlier expected. Further investment in inventories and equipment necessary to meet this demand has in turn been required by business lest they forego potential sales opportunities.

Following a lull in March 1984, retail sales rose a strong 3 percent in April with durable goods climbing almost 5 percent. Auto sales were an important factor, jumping an impressive 7 percent during the month. Because consumers generally finance most of their durable goods expenditures, installment credit growth in April should at least match its 18 percent annual rate reflected in March.

Inventory building, responsible for roughly half of the first quarter growth, showed a solid rise in March, indicating businesses feel a need to acquire additional supplies and finished goods. A continued rise in industrial production in March 1984, the 17th consecutive monthly gain, further confirms consumer demand at the retail level. However, with the utilization rate at 81.9 percent of capacity, further expensive investment in plant and equipment would be required.

Because of the prominent position of housing activity in the recent recovery, housing construction will continue to play an important role as the economy moves from recovery to expansion. Private housing starts during the first four months of this year rose 19 percent, when compared to the same period last year. Inventories of unsold homes also remain at historically low levels as demand continues unabated. A portion of this demand is due to the acceptance of adjustable rate mortgages in the marketplace. The unusually high rate of new housing starts, about 1.9 million annually in April, will peak shortly and trend downward as consumers hesitate to take on new debt at higher rates.

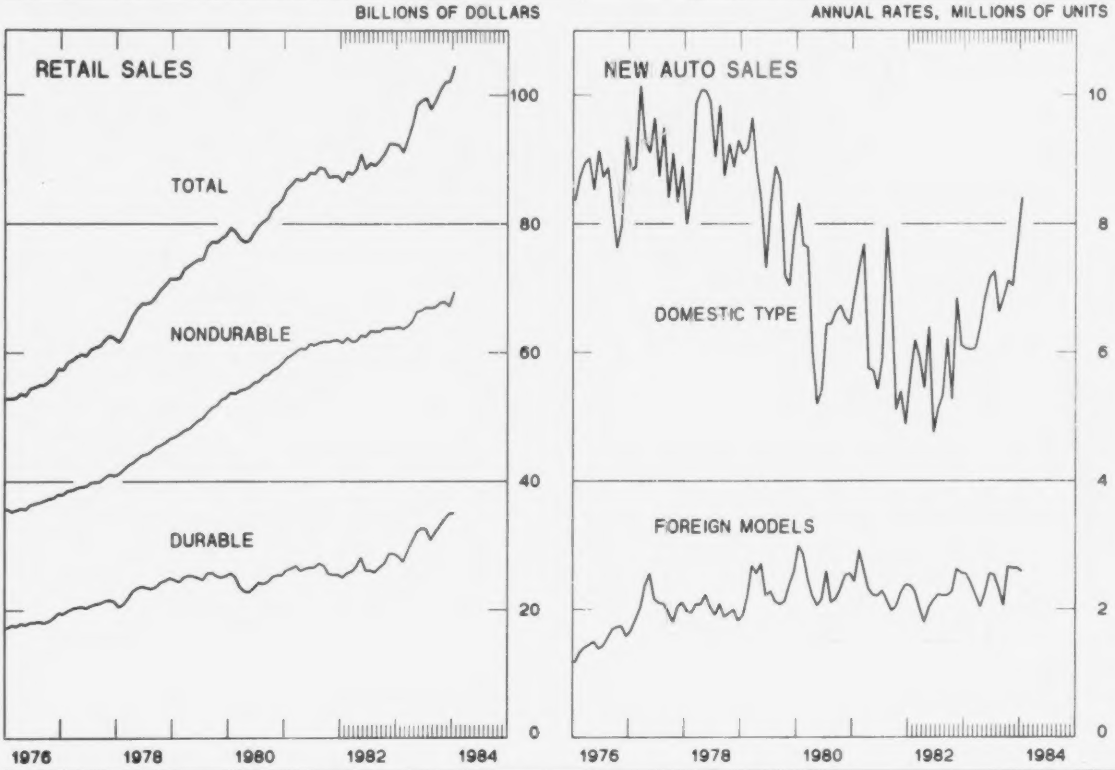
As a result of this level of activity, short-term rates have climbed over 100 basis points since January 1984, and upward movement remains in the market. One-year Treasuries, a frequently used index for ARM lending, are up 130 basis points from January, and 10-year Treasuries are yielding almost 100 basis points more over the same period. In the second week in May, the prime lending rate was raised to 12.50 percent, and the authorized rate on VA loans, a frequent benchmark for fixed-rate FHA lending, increased to 13.50 percent. The immediate impetus for this movement was a Federal Reserve policy decision in March to restrict monetary growth. The underlying growth in rate pressure comes from investor perceptions of expected inflation resulting from continued projected Federal deficits in the range of $175 to $200 billion. Institutional investors have had difficulty in selling new Treasury debt funding issues, thus forcing yields up in order to clear the market. Recent trading volume has been light, reinforcing these effects of decreasing demand. Mortgage interest rates maintained their relatively high level in April 1984 with fixed-rate loan yields approaching 13 percent. In April 1984, conventional fixed-rate loans closed at 12.91 percent, up from 12.82 percent in March 1984. The rate on ARMs for the same period was 11.57 percent, accounting for 60 percent of all conventional loans closed. With the recent rise in the VA-authorized rate to 13.5 percent, long-term yields are now approaching the 14 percent level for fixed-rate mortgages.

The outlook for the next few months is dependent upon investor reaction to economic statistics and their reflection of overall activity. Yields may move up five to 10 basis points, accompanied by broad fluctuations, depending on the most current news. The economic prospect into the fall is highly dependent on fiscal policy and Federal Reserve action in response to overall economic growth. With slower growth likely, the Fed should respond with an easing of monetary policy and a generally more optimistic environment. Under this scenario, yields on short-term loans would decline almost as much as they have risen since January 1984, and long-term yields would follow suit.

Gregory Luetscher
Assistant Economist

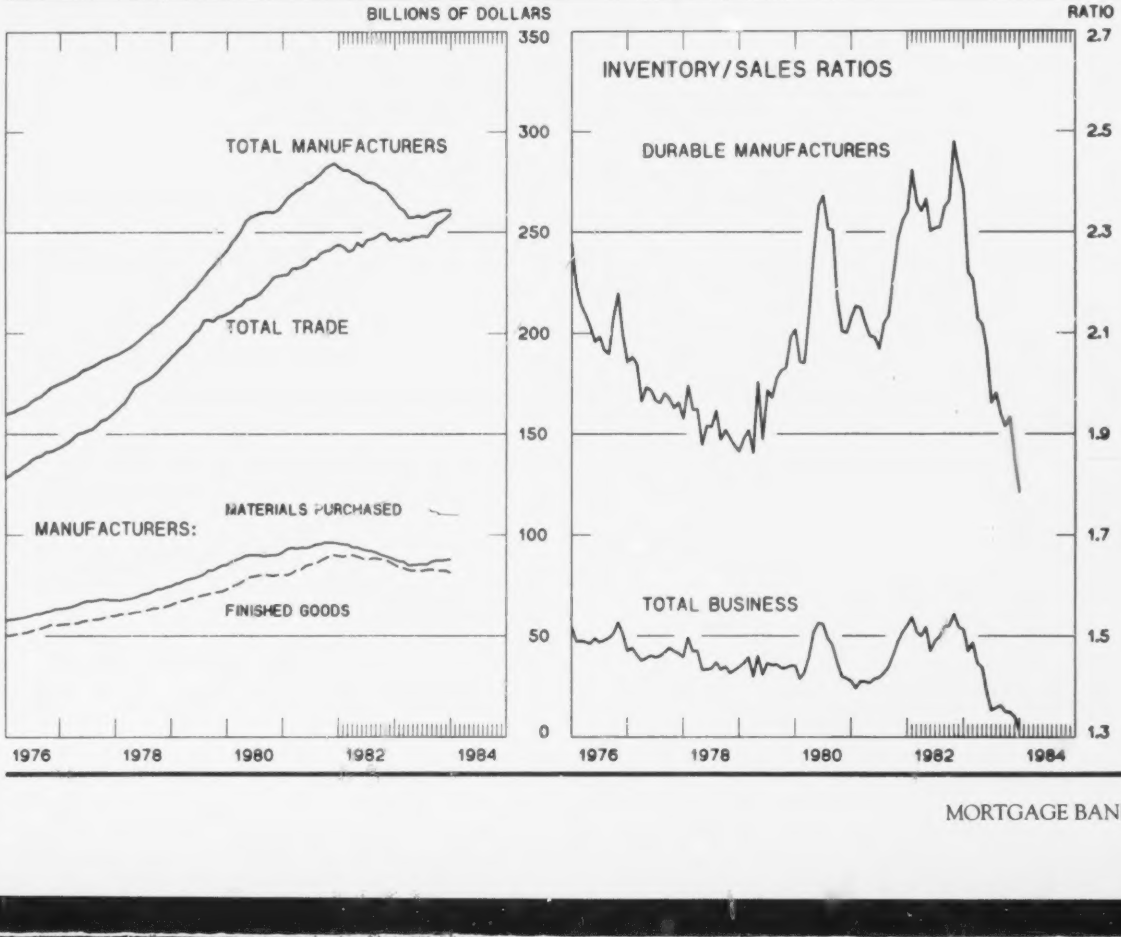
RETAIL TRADE

SEASONALLY ADJUSTED, MONTHLY



INVENTORIES

SEASONALLY ADJUSTED, END OF MONTH



MORTGAGE MARKET TRENDS—JUNE 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,632	1,184	448
FEB	93	56	36	1,479	949	530	96	66	30	1,706	1,182	524
MAR	135	91	44	1,467	985	482	135	95	40	1,592	1,119	473
APR	138	93	45	1,536	982	554	136	103	33	1,549	1,143	406
MAY	149	104	45	1,635	1,076	559	175	124	51	1,779	1,252	527
JUN	171	114	57	1,761	1,160	601	173	125	48	1,743	1,242	501
JUL	147	92	55	1,782	1,057	725	162	113	49	1,793	1,175	618
AUG	153	97	56	1,652	1,007	645	177	121	56	1,873	1,233	640
SEP	148	90	58	1,506	967	539	155	108	47	1,679	1,153	526
OCT	140	87	53	1,630	1,022	608	159	102	57	1,672	1,113	559
NOV	125	79	46	1,642	1,053	589	136	93	43	1,730	1,204	526
DEC	107	65	42	1,549	1,039	510	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,817	1,154	663	109	75	34	1,980	1,415	565
FEB	125	78	47	1,946	1,260	686	128	88	40	2,231	1,592	639
MAR	147p	99p	48p	1,714p	1,128p	586p	135p	96p	39p	1,638p	1,174p	464p
3 month												
1984	382	244	138				372	259	113			
1983	313	203	109				323	225	99			
1982	177	113	65				179	129	50			
1981	243	165	78				261	192	72			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62 542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	162,209	67,769	27,413	67,027
FEB	170,020	72,406	27,881	69,733
MAR	171,028p	73,270p	27,245p	70,513p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.0
MAY	259	64	271	4.9
JUN	238	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.4
FEB	202	57	307	5.4
MAR	264p	62p	317p	5.9p
3 month				
1984	644	141		
1983	555	147		
1982	421	86		
1981	564	124		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	151	216	958	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	233	256	874	343
MAR	11	14	82	28	136	173	835	323	13	13	80	29	191	203	854	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	170	196	843	340
MAY	15	20	77	38	148	194	885	408	17	25	93	40	165	228	984	402
JUN	19	21	86	45	183	201	930	447	18	25	89	42	175	216	935	417
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	166	230	979	418
AUG	18	21	77	37	182	202	870	399	22	25	92	38	186	237	1,015	435
SEP	18	21	73	36	176	177	765	388	15	23	84	34	138	221	938	382
OCT	15	20	72	33	159	195	878	398	16	23	87	33	160	197	947	368
NOV	13	16	68	29	150	187	907	398	14	18	75	30	156	214	939	421
DEC	11	9	56	30	168	179	778	424	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	169	245	878	525	7	9	61	32	195	319	927	539
FEB	10	11	68	35	245	283	901	517	9	11	76	32	315	345	1,109	462
MAR	14p	16p	75p	42p	182p	208p	801p	523p	11p	15p	75p	34p	175p	230p	814p	419p
3 month																
1984	31	35	206	110					27	35	212	98				
1983	25	26	191	71					25	27	201	71				
1982	14	13	112	38					13	12	119	35				
1981	19	28	133	61					16	29	138	58				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,013	590	423	109	77	32
MAR	1,032	608	424	117	80	37
3 month						
1984				338	233	105
1983				250	182	68
1982				207	138	69
1981				287	215	72

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA Mandatory Delivery Yields		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey												
	FHA New[3]	Conventional		Conventional							Aaa Utility[9] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr Treas.)	Conv.			10-yr.	26-wk.			
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.97	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.49		12.763	12.825	12.46	12.99	11.67	9.01	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	11.92	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.11	12.23	14.29		13.213	13.263	n.a	13.63	12.32	9.66	9.83	5	n.a.

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
SEP	10,467	2,280	3,858	3,855	474	7,541	2,090	3,130	2,276	45	593	50	295	226	22	2,333	140	433	1,353	407
OCT	10,724	2,850	3,529	3,764	581	7,447	2,290	2,817	2,296	44	761	320	216	210	15	2,516	240	496	1,258	522
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54	1,532	650	529	312	45	3,389	180	605	1,913	757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,901	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	19,879	4,870	7,818	6,401	790	13,525	4,200	5,839	3,436	50	1,835	310	938	538	49	4,519	360	1,041	2,427	691

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
SEP	50,444	9,800	18,241	13,108	9,295	10,089	4,240	3,888	1,466	495
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,539	15,170	40,781	13,876	10,712	18,076	4,660	9,173	2,903	1,340
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
SEP	91	47	44	60	3,248	11	462	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	124	45	79	101	6,467	20	1,093	22	1,449	59	3,925

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
JUL	2,016	1,354	6,392	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	7,057	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	8,133	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	10,268	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	12,060	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	14,450	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,929	1,507	26,124	1,126	1,128	1,386	1,389	813	4,422	3,030

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5 + Units	Non-res.		Total	1-4 Units	5 + Units	Non-res.
1982									
JUL	110	40	20	50	40	430	50	250	130
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	250	190	20	40	290	560	130	190	240
1984									
JAN	90	80	10	0	120	460	130	100	230
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available, p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series

[2] Reflects cumulative total through the latest month for each column

[3] Secondary market gross yields

[4] Federal Home Loan Mortgage Corp. Existing construction only

[5] Federal Reserve's weighted average interest rate for Commercial Banks

[6] Weighted average gross yields for accepted bids

[7] Survey of three New York security dealers. Securities for immediate delivery

[8] Mutual Savings Banks and Commercial Banks

[9] As of January 1984 this rate is for A-rated recently offered utility bonds

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED								
						1-4 Units				5 + Units			
	Total[2]	1-4 Units	5 + Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1982													
FEB	1,640	1,310	140	210	1,400	1,030	370	200	460	140	70	70	230
MAR	2,380	1,800	100	430	2,090	1,570	480	240	850	90	40	50	430
APR	2,190	1,790	80	300	1,940	1,550	450	250	850	80	20	60	310
MAY	2,350	1,820	260	340	2,090	1,660	530	290	840	150	50	100	280
JUN	2,550	2,110	110	300	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,170	1,730	50	280	2,230	1,950	610	370	970	50	50	0	230
AUG	2,040	1,860	70	320	2,450	2,130	720	420	990	70	10	60	250
SEP	1,960	1,820	30	140	2,280	2,090	700	490	900	50	10	40	140
OCT	2,470	1,890	510	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,370	2,950	200	260	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,140	3,870	130	180	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,230	4,350	580	270	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,220	5,060	170	270	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	6,730	5,780	80	800	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,850	5,520	900	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	6,280	5,190	530	660	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	7,160	5,800	790	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,650	4,830	30	410	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	4,780	4,360	230	640	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	3,850	3,190	140	590	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	3,730	3,000	270	530	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	5,550	4,990	100	520	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,000	4,470	100	280	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,400	4,700	270	550	4,870	4,200	1,150	750	2,300	310	10	300	360

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982														
FEB	2,410	1,790	60	560	2,860	2,000	80	780	5,030	930	970	3,680	1,370	1,270
MAR	3,370	2,440	210	720	2,450	2,070	270	110	6,270	560	960	4,540	880	1,260
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	6,310	4,060	250	2,000	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	630	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810

Notes: [1] All dollar amounts are in millions.
[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3] Series labeled non-residential are also inclusive of farm data.
[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5 + Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982															
FEB	5,590	2,910	590	440	1,880	1,540	280	1,260	1,140	46	55	60	204,960	25,450	40,430
MAR	5,670	3,370	700	400	2,230	970	130	840	1,330	47	58	55	216,430	29,520	40,140
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,800	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	46	47	259,530	46,690	39,600
1984															
JAN	15,620	6,420	1,390	1,150	3,880	8,300	10	7,390	900	46	41	49	283,720	51,610	36,130

CONSTRUCTION AND LAND LOAN ACTIVITY

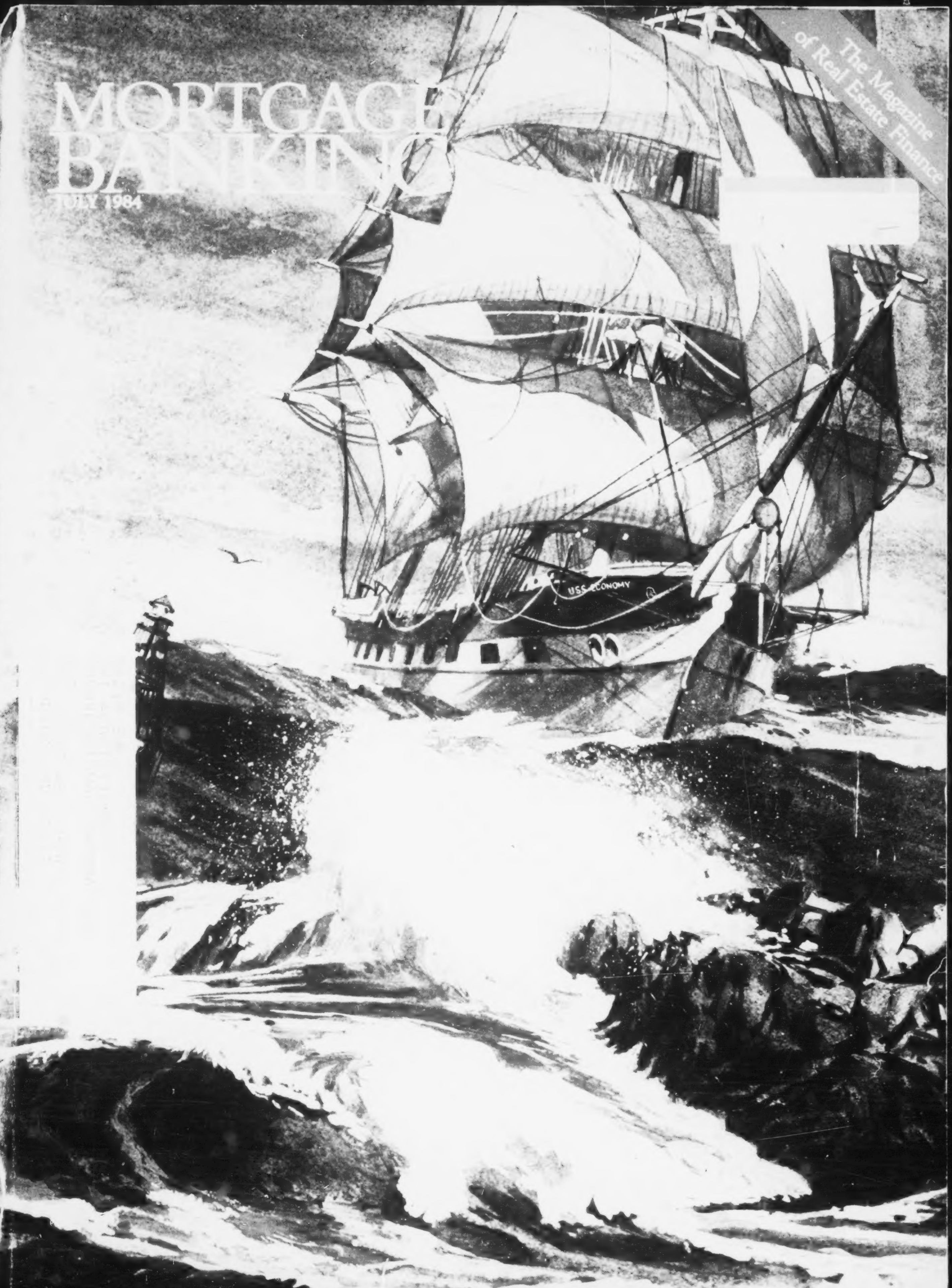
Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5 + Units	Non-Res.	Land Loans	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Land Loans
1982														
FEB	110	40	20	50	70	340	60	50	230	2,540	600	640	1,300	600
MAR	90	50	10	30	50	480	90	60	330	2,320	570	570	1,180	570
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	70	50	20	0	90	130	60	20	50	3,220	990	430	1,800	750
NOV	100	50	50	0	90	140	70	10	60	3,150	1,010	350	1,800	750
DEC	250	190	20	40	290	560	180	40	340	8,490	2,710	940	4,840	1,550
1984														
JAN	90	80	10	0	120	180	70	20	90	3,490	1,050	430	2,010	650

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
FEB	680	60	190	430	7,530	540	3,340	3,650	10,910	1,260	5,700	3,950
MAR	890	170	160	560	6,420	630	2,000	3,790	11,790	1,330	7,030	3,430
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,640	130	990	520	22,330	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	130	890	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,450	100	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470

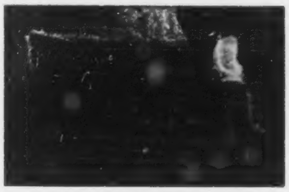
MORTGAGE BANKING

JULY 1984

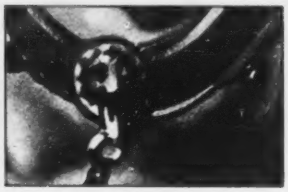
The Magazine of Real Estate Finance


USS ECONOMY

Volume 44 No. 11
July 1984



20 Convertible Mortgages



28 Element of Control

55 Cash Management

Certified Mortgage Bankers Discuss Income Property Loans 11

Convertible Mortgages Gain Big League Attention
John Oharenko 20

Sales Incentives and the Element of Control
Bram Groen 28

Work-Outs for Problem Properties
Andrew Abramson 44

Profit Improvements Through Cash Management
Jean E. LeGrand 55

Structured Financing: Making a Difference Part II
Michael J. BeVier and John W. Biasucci 73

Survivorship & Decrement Tables:
HUD/FHA Home Mortgage Insurance Programs
Thomas N. Herzog and Dominick Stasulli 86

Pitfalls in ARM Lending
Peter E. Kaplan, Esq. 94

About This Issue 5
People 97
Books 107
Advertisers Index 110
Mortgage Market Trends 113

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Lee A. Boynton

Published monthly since
1939 by the Mortgage
Bankers Association
of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

Mortgage Market Trends

Prepared by MBA's Economics Department

June 26, 1984

In late June 1984, the Commerce Department released its flash estimate for second quarter Gross National Product (GNP) growth. This estimate, which is based on source data for the first month of the quarter and projections for the remaining months, predicted inflation-adjusted GNP will rise at a 5.7 percent annual rate for the three months ending in June. Because these data are substantially incomplete, this statistic is likely to undergo further significant revision in the months ahead. Concurrent with the estimate of second quarter growth, the Commerce Department also published its third revision of first quarter GNP growth. According to this latest revision, first quarter real GNP growth advanced at a 9.7 percent annual rate. The original estimate of 7.2 percent, the first quarter flash estimate made in mid-March, was revised upward on three consecutive occasions to 8.3 percent, 8.8 percent, and now to 9.7 percent. In all probability, the second quarter estimate will also undergo revisions of this nature. Also likely are further data showing an overall decline in second quarter growth rates from the first quarter, resulting from higher credit costs associated with the constraints imposed by limitations in money growth and strong levels of real activity.

During the initial phase of an economic recovery there are usually abundant supplies of idle productive resources available. As the recovery progresses, however, these idle resources are utilized and result in higher levels of economic activity and overall rates of growth. The most commonly quoted statistic is the aforementioned real or inflation-adjusted rate of gross national product. A measure often ignored is the nominal or current-dollar rate of gross national product, or the actual measure of GNP before price changes. Especially important is the relationship of growth in the money supply to the rate of growth in nominal GNP. By altering money growth, the Federal Reserve Board (Fed) can play an integral role in the direction and magnitude of economic activity through the vehicle of market interest rates.

In the first quarter of 1984, nominal GNP grow at a seasonally adjusted annual rate of 13.9 percent. Interestingly enough, real GNP growth in the first quarter of 1984, 9.7 percent, was identical to the real rate of growth in the second quarter of 1983. The nominal growth rate in the second quarter of 1983 was also very close, at 13.3 percent, to the measure in the first quarter of 1984. Interest rates, however, have run-up by over 150 basis points during this time period. Examination of money supply growth helps put this rate increase in its proper perspective.

In the second quarter 1983, while nominal GNP grew at a 13.3 percent rate, money growth, as measured by the Fed concept of M1 (the total of demand deposits, currency, and coin held by the public), grew at an 11.6 percent rate. Final sales, also, were running at just under a 7 percent rate of growth, providing readily available supplies of cash for corporate re-investment. The net result was Treasury bill yields in the 8.2 to 8.6 percent range and Treasury bonds around 10.2 percent.

In comparison, the first quarter 1984 rate of nominal GNP growth was 13.9 percent, but M1 expanded by only 7.2 percent, leaving a potential "funding gap" of about 6.7 percent of GNP growth, compared with 1.7 percent in the second quarter 1983. Additionally, the growth in final sales had receded to a 3.9 percent annual rate, leaving many companies short of available investment capital. As a result, the competition for funds intensified. The impact on short-term rates was to drive them upward by around 130 basis points, with longer-term yields up more than 200 basis points.

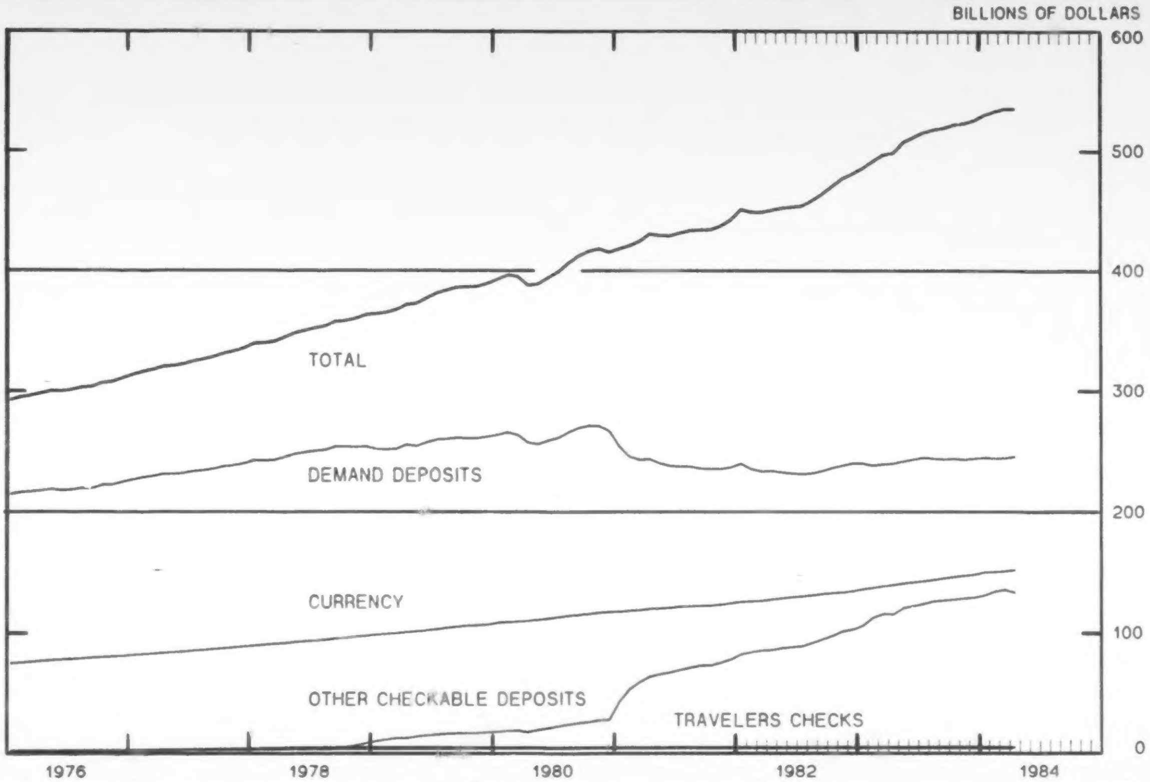
Recent statistics seem to indicate that the Fed's cyclical alteration in money growth in the last six months has had the expected outcome. The rate of industrial capacity utilization in May 1984 was essentially flat when compared with April, and industrial production followed suit. High interest rates affected housing to such a degree in May that new housing starts declined by over 10 percent from April 1984. Additionally, the flash estimate of 5.7 percent for second quarter real GNP growth is around the 6 percent level that was generally expected though less than the 7.2 percent growth initially estimated for the first quarter of 1984.

In the aggregate, the economy is showing signs of cooling off from earlier levels. Generally, interest rates should not rise significantly and may even decline in the third quarter. Because M1 figures are approaching the top range of their target band, the Fed is unlikely to become more accommodating to the demand for money creation. However, with generally slower rates of economic growth on the horizon, and the twin concerns of the growing international and Federal debt, the probability of further restriction in the rate of money supply growth is very slight.

Gregory D. Luetscher
Assistant Economist

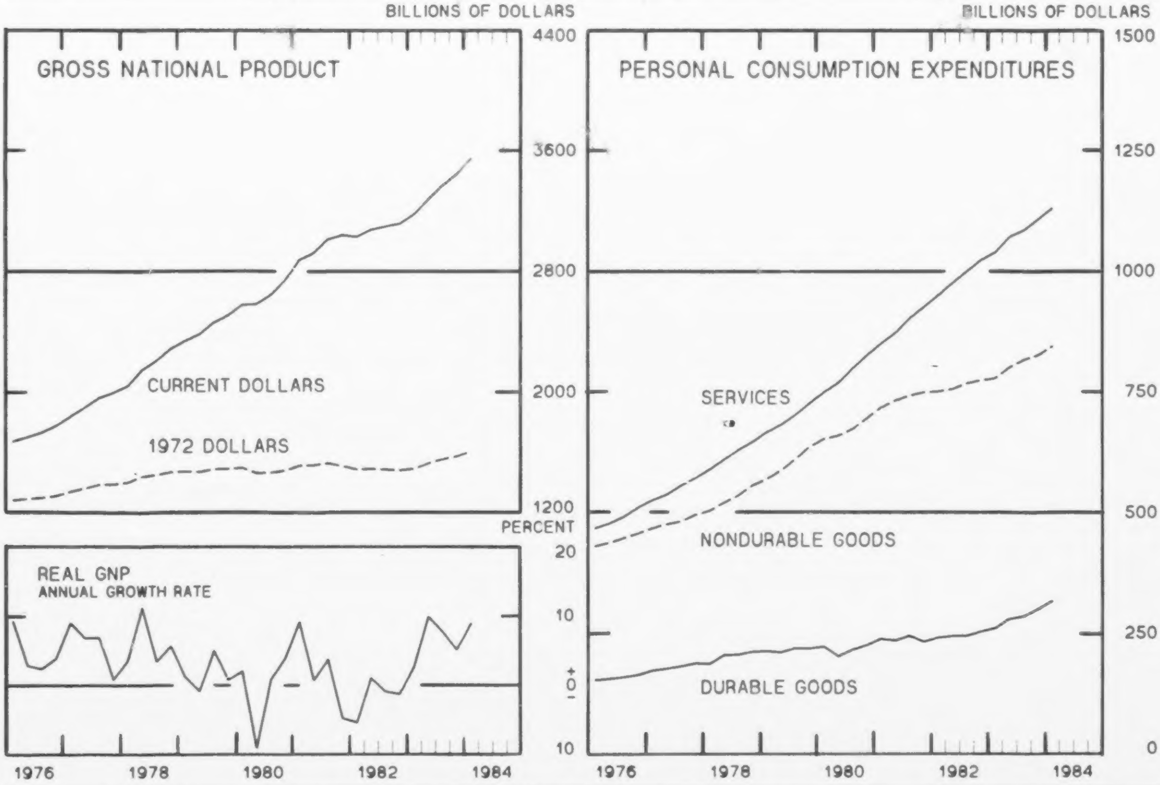
MONEY STOCK M1

SEASONALLY ADJUSTED, MONTHLY



GROSS NATIONAL PRODUCT; PERSONAL CONSUMPTION EXPENDITURES

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



MORTGAGE MARKET TRENDS—JULY 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
FEB	93	58	35	1,456	946	510	96	66	30	1,706	1,182	524
MAR	136	91	45	1,492	983	509	135	95	40	1,592	1,119	473
APR	139	94	45	1,556	998	558	136	103	33	1,549	1,143	406
MAY	151	105	46	1,660	1,079	581	175	124	51	1,779	1,252	527
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	136	98	38	1,645	1,199	446
APR	154p	103p	51p	1,725	1,096	629	168p	118p	50p	1,963p	1,335p	628p
4 month												
1984	536	348	188				543	380	163			
1983	451	298	153				458	328	131			
1982	257	165	93				262	192	70			
1981	354	246	109				386	286	102			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	162,209	67,769	27,413	67,027
FEB	170,191	72,577	27,881	69,733
MAR	175,076	73,982	28,026	73,068
APR	17,303p	74,494p	28,804p	74,005p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.0
MAY	259	64	271	4.9
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.7
FEB	202	57	306	5.4
MAR	263	61	318	5.2
APR	268	59p	326p	5.5p
4 month				
1984	911	229		
1983	793	199		
1982	589	120		
1981	736	166		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1983																
JAN	6	6	51	20	159	184	757	331	5	6	63	18	151	216	958	307
FEB	8	6	57	22	173	160	781	342	7	8	58	24	233	256	874	343
MAR	11	14	82	28	139	180	849	324	13	13	80	29	191	203	854	344
APR	13	17	75	34	155	174	855	372	14	18	75	30	170	196	843	340
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14p	16p	75p	42p	184	207	808	528	11	15	75	35	170	232	816	427
APR	16p	20p	77p	41p	179	211	875	460	17p	20p	88p	43p	210p	233p	1,017p	503p
4 month																
1984	47	55	283	151					44	55	301	143				
1983	40	43	266	105					38	45	277	99				
1982	24	22	158	53					22	26	164	50				
1981	32	45	184	92					26	48	205	87				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,023	601	422	120	82	38
APR	1,070	635	435	125	86	39
4 month						
1984				466	321	145
1983				337	246	91
1982				283	191	92
1981				396	293	102

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[3]	Conventional		Conventional								U.S. Gov't.				
		New	Existing	New	Existing			ARM (5 yr Treas.)	Conv.		Aaa Utility[9] New Issue	10-yr.	26-wk.	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
1983																
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.49		12.763	12.825	12.46	12.99	11.68	9.02	9.20	9	78
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.213	13.263	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.09	12.11	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54	1,532	650	529	312	45	3,389	180	605	1,913	757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	19,879	4,870	7,818	6,401	790	13,515	4,190	5,839	3,436	50	1,845	320	938	538	49	4,519	360	1,041	2,427	691
FEB	n.a.	4310	n.a.	n.a.	n.a.	n.a.	3350	n.a.	n.a.	n.a.	n.a.	570	n.a.	n.a.	n.a.	n.a.	390	n.a.	n.a.	n.a.
MAR	n.a.	4500p	n.a.	n.a.	n.a.	n.a.	3580p	n.a.	n.a.	n.a.	n.a.	370p	n.a.	n.a.	n.a.	n.a.	550p	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
OCT	53,690	12,570	19,328	12,512	9,280	13,094	6,740	4,024	1,620	710
NOV	59,572	15,660	20,785	13,457	9,670	15,456	7,290	5,017	1,819	1,330
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,539	15,170	40,781	13,876	10,712	18,076	4,660	9,173	2,903	1,340
FEB	n.a.	15,890	n.a.	n.a.	n.a.	n.a.	3,980	n.a.	n.a.	n.a.
MAR	n.a.	13,570p	n.a.	n.a.	n.a.	n.a.	5,330p	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	124	45	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	54	3,009	n.a.	54	3,009	35	1,807	19	1,202	n.a.	n.a.

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
AUG	1,820	1,931	7,057	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	8,133	1,008	2,980	2,892	1,798	1,924	16,429	110
OCT	1,426	1,449	10,268	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	12,060	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	14,450	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,929	1,507	26,124	1,126	1,128	1,386	1,389	813	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
AUG	100	40	20	40	60	540	90	200	250
SEP	110	40	20	50	40	320	80	130	110
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190p	80p	30p	80p	220p	350p	120p	80p	150p

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

[9] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5 + Units			Non-[3] Res.
	Total[2]	1-4 Units	5 + Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	
1982													
APR	2,020	1,650	90	290	1,940	1,550	450	250	850	80	20	60	310
MAY	2,080	1,680	160	230	2,090	1,660	530	290	840	150	50	100	280
JUN	2,200	1,840	100	290	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,070	1,700	80	260	2,230	1,950	610	370	970	50	50	0	230
AUG	2,160	1,780	120	290	2,450	2,130	720	420	990	70	10	60	250
SEP	2,360	2,070	70	170	2,280	2,090	700	490	900	50	10	40	140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,060	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MARp	4,490	3,620	520	440	4,500	3,580	800	560	2,220	370	10	360	550

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982														
APR	3,630	1,830	330	1,470	4,450	2,510	300	1,640	5,950	640	1,630	5,280	730	1,600
MAY	3,380	2,070	390	920	3,460	2,130	420	910	6,460	740	1,060	5,450	1,430	1,220
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MARp	5,330	4,120	0	1,210	4,620	3,560	90	970	12,840	0	730	9,050	1,710	710

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1982															
APR	6,350	3,230	690	480	2,060	1,230	140	1,090	1,890	58	39	45	214,400	27,670	42,660
MAY	6,210	3,370	720	510	2,140	1,650	150	1,500	1,190	55	60	54	219,330	28,600	41,230
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	46	47	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,910	6,370	1,370	1,210	3,790	7,510	0	7,510	1,030	47	23	40	278,400	54,040	44,440

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1982														
APR	240	50	50	140	70	490	90	140	260	2,720	580	690	1,450	640
MAY	90	30	20	40	50	620	80	160	380	2,670	560	690	1,420	610
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MARp	190	80	30	80	220	350	120	80	150	3,340	990	380	1,990	840

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
APR	2,720	100	1,090	1,530	7,820	560	2,330	4,930	12,270	1,070	5,900	5,300
MAY	1,270	130	670	470	8,150	660	3,230	4,260	11,020	1,200	5,400	4,420
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MARp	2,840	150	2,240	450	5,690	620	2,070	3,000	42,900	5,060	9,130	28,710

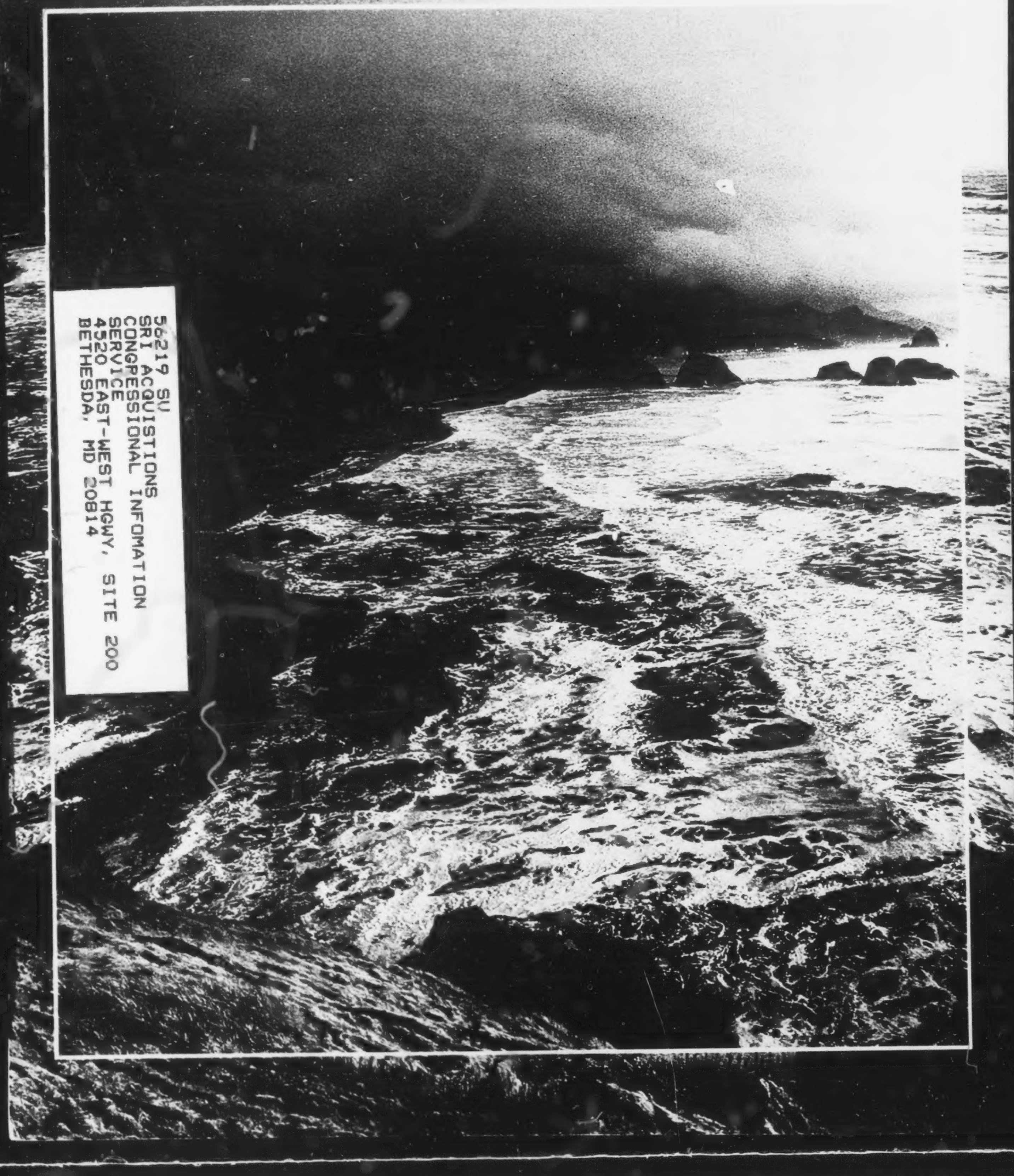
MORTGAGE BANKING

AUGUST 1984

The Magazine
of Real Estate Finance

[redacted]

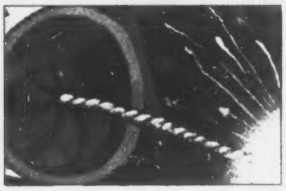
- 1 . 450 -



56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

Volume 44 No. 12
August 1984

8 Wholesale Mortgage Banking



22 Short Fuse

56 Pricing Discount ARMs

Wholesale Mortgage Banking: Growth Industry
Michael Stamper and Susan Sheppard-Haun 8

Short Fuse on ARMs
Niel F. Moser and Douglas E. Whiteley 22

A Man For All Reasons
William I. DeHuszar, CMB 44

Pricing Discount ARMs in the Secondary Market
Jess Lederman 56

The Asset Lenders Fear Most
Donald L. Black 67

Probing the Depth of Mortgage Pools Sequel
James E. Monsma and Kenneth R. Scott 75

Economic Outlook
Two Critical Questions
Sidney L. Jones 83

Uniform Appraisal Guidelines
Henry C. Entreken and J. Mark Stroud 86

About This Issue 5
People 96
Books 107
Advertisers Index 108
Mortgage Market Trends 113

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Photo by: Cotton Coulson/Woodfin Camp, Inc.

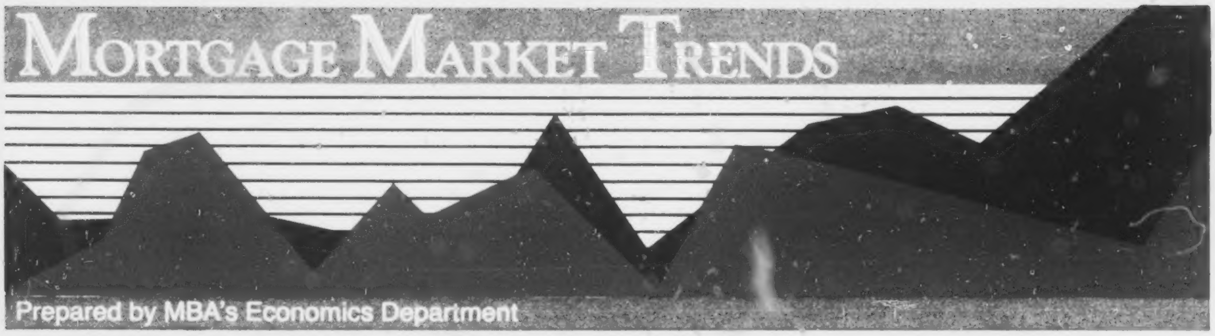
Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS



Prepared by MBA's Economics Department

July 23, 1984

The Federal Reserve Board (Fed), should view the revision of second quarter real GNP from 5.7 percent to 7.5 percent with special concern, as a continuation of this rapid pace of economic activity will push interest rates to higher levels and threaten the life of both the domestic and international economic recoveries.

With a couple of major exceptions, virtually all sectors of the economy are growing vigorously, seemingly unaffected by the run-up in interest rates. Boosted by an employment surge of five million jobs since June 1983, robust personal income growth has fueled strong gains in retail sales this year. As a result, industrial production increased by almost 12 percent from June 1983 through June 1984, with most of the gains coming from the production of business equipment and durable consumer goods.

Further, reports of increases in factory orders, new construction contracts, machine tool orders, and stepped-up auto production by U.S. companies in the third quarter imply that healthy production gains are in the picture for the remainder of the year, and that personal income growth should increase sufficiently to support respectable sales increases in the third and fourth quarters.

Although the implication of this upbeat outlook is a continuation of healthy corporate profit gains, the credit demands fostered by this activity will have the effect of skewing the remainder of this recovery away from the interest-sensitive sectors of the economy. Thus, the composition of the recovery will shift away from housing-led economic growth to investment-led growth. Already, the escalation in interest rates this year has led to a marked deceleration in housing starts and sales, particularly in the single-family category. Second quarter housing starts of single-unit dwellings averaged 11 percent below the first quarter level, and sales of new single-family houses have declined throughout the spring, with May 1984 sales almost 20 percent lower than in December 1983. Moreover, while starts of apartment complexes rose by 32 percent in June 1984, eventually the construction of these structures will also succumb to rising interest rates.

To be sure, a substantial decline in interest rates will be required to restore housing activity to the heights attained this past winter. For this to occur, stiff demand pressures on the credit markets would have to ease, and/or the stock of national savings would have to rise appreciably. This, in turn, would require one of three things: a sharp contraction in economic growth, induced by a sudden and sustained drop in the money supply; a dramatic decline in federal borrowing fostered by a much lower federal budget deficit; or a voluminous increase in corporate retained earnings and personal savings. The probability of any of these three events taking place is slim.

First, while the Fed may wish to shift to a more restrictive monetary policy to prevent the economy from overheating, domestic and international considerations preclude such a move. A sharp contraction in money growth would abort the recovery only a year and a half after one of the most severe recessions since the Great Depression. While this would cool loan demand and lower interest rates, it would foster a Congressional tirade of immense proportions, and would shut down the very export market that the debt-ridden, less developed countries (LDCs) depend on most. Given the vulnerability of major U.S. banks to widespread loan defaults by these LDCs, it is fair to say that the Fed would avoid instigating such a development. In fact, the behavior of the monetary aggregates over the past seven months suggests that, if anything, the Fed has been leaning toward accommodation.

Since December 1983, the annual growth rate of M1 (the total of demand deposits, currency and coin held by the public) has slightly exceeded its target band of 4-8 percent. Further, the monetary base (Federal Reserve Bank reserves plus currency in circulation), which is the primary determinant of future movements in M1 and is controlled by the Fed, has been growing at an expansionary 10.3 percent annual rate since January 1984, and at a 12.5 percent rate since early May 1984. This compares with a monetary base growth rate of under 9 percent in 1983. Thus, it seems that the Fed would prefer to err on the side of accommodation and that a turn to significant monetary restriction is not in the cards.

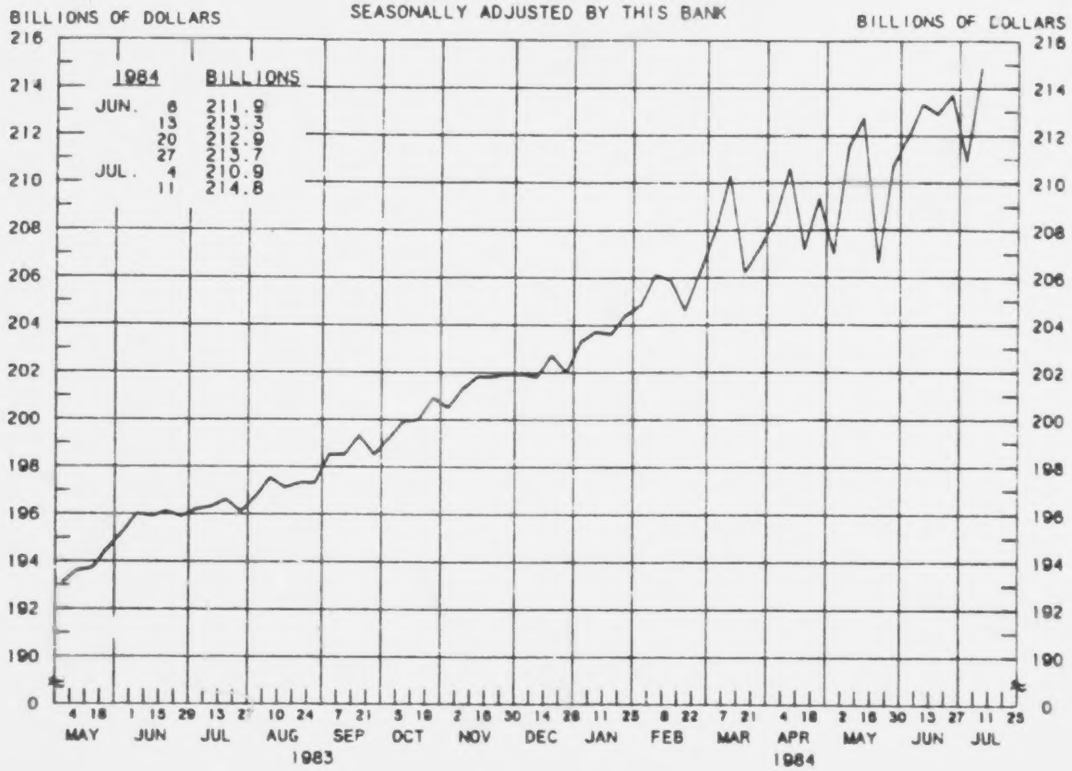
Second, sharply lower federal borrowing associated with reduced federal budget deficits is equally improbable over the near-term, for that implies the enactment of substantial tax increases and spending cuts in an election year.

Third, a burst in savings growth would occur only if personal savings and corporate retained earnings rise greatly. While the personal savings rate has risen so far this year to 6 percent from 5 percent in 1983, it is not a significant increase. Similarly, the pace of business investment expenditures is outweighing the growth in retained earnings, explaining the strength of business loan demand this year. Thus, a drop in interest rates emanating from an increase in the national stock of savings is a remote possibility at this time.

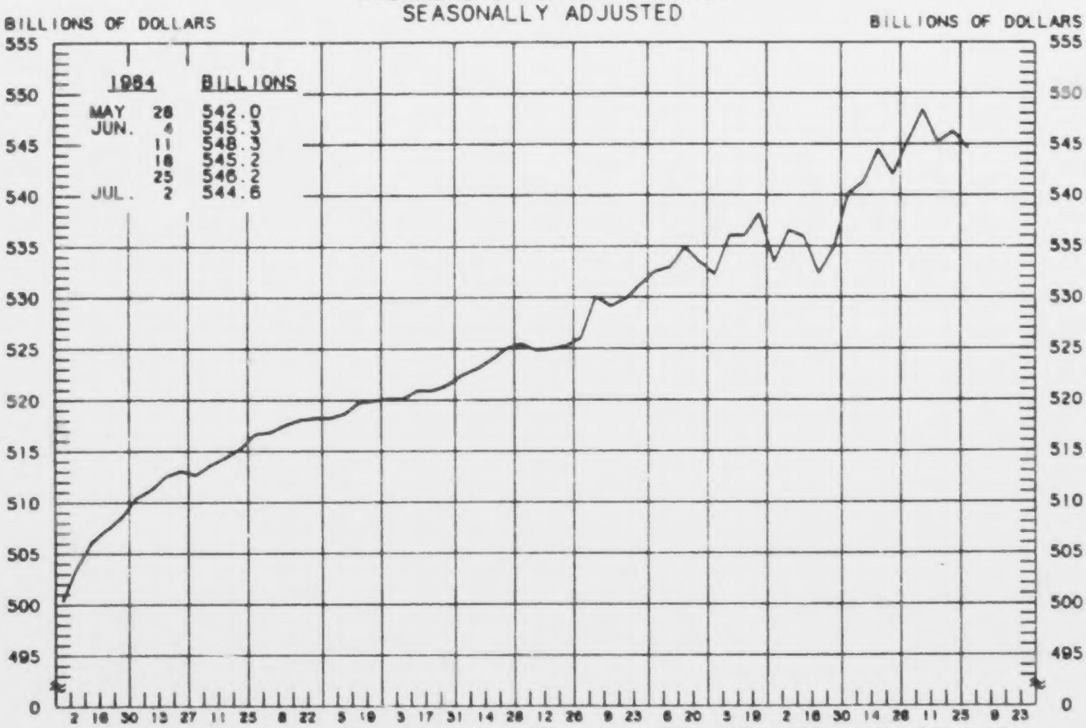
In short, conditions in the credit markets and in the real economy point toward persistently high interest rates over the next two to three quarters. As a result, housing sales will continue to moderate this year, and the volume of mortgage originations will suffer until interest rates are driven down by the next cyclical downturn sometime in 1985.

Edison R. Zayas
Economist

ADJUSTED MONETARY BASE
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED BY THIS BANK

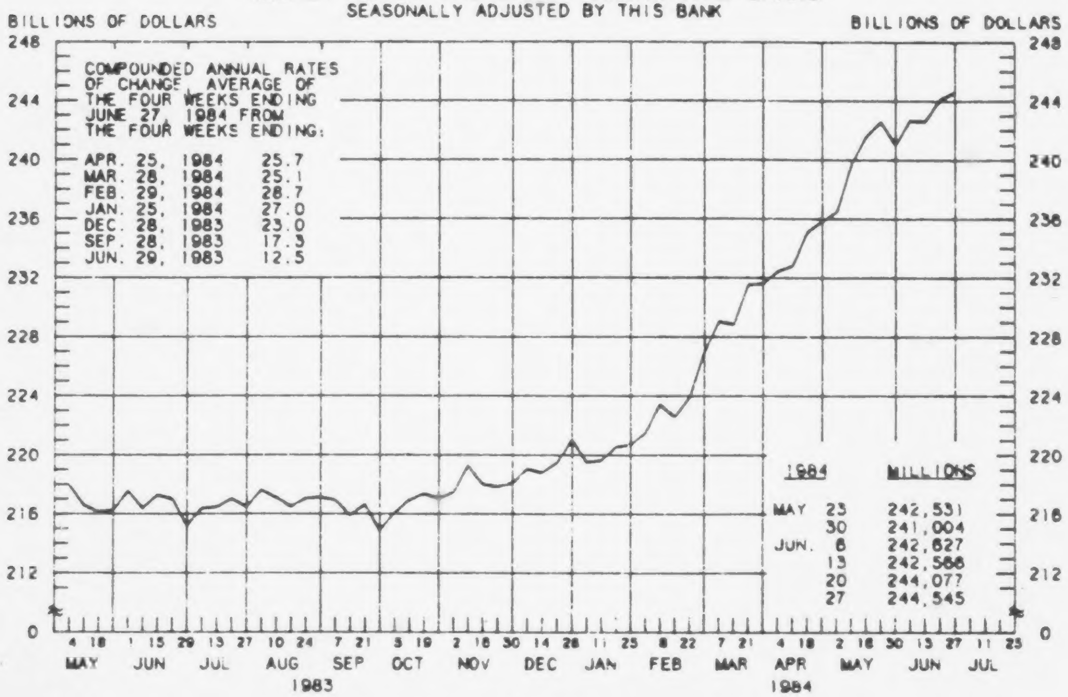


MONEY STOCK (M1)
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED



Source: Federal Reserve Bank of St. Louis

BUSINESS LOANS
(COMMERCIAL AND INDUSTRIAL)
WEEKLY REPORTING LARGE COMMERCIAL BANKS
SEASONALLY ADJUSTED BY THIS BANK

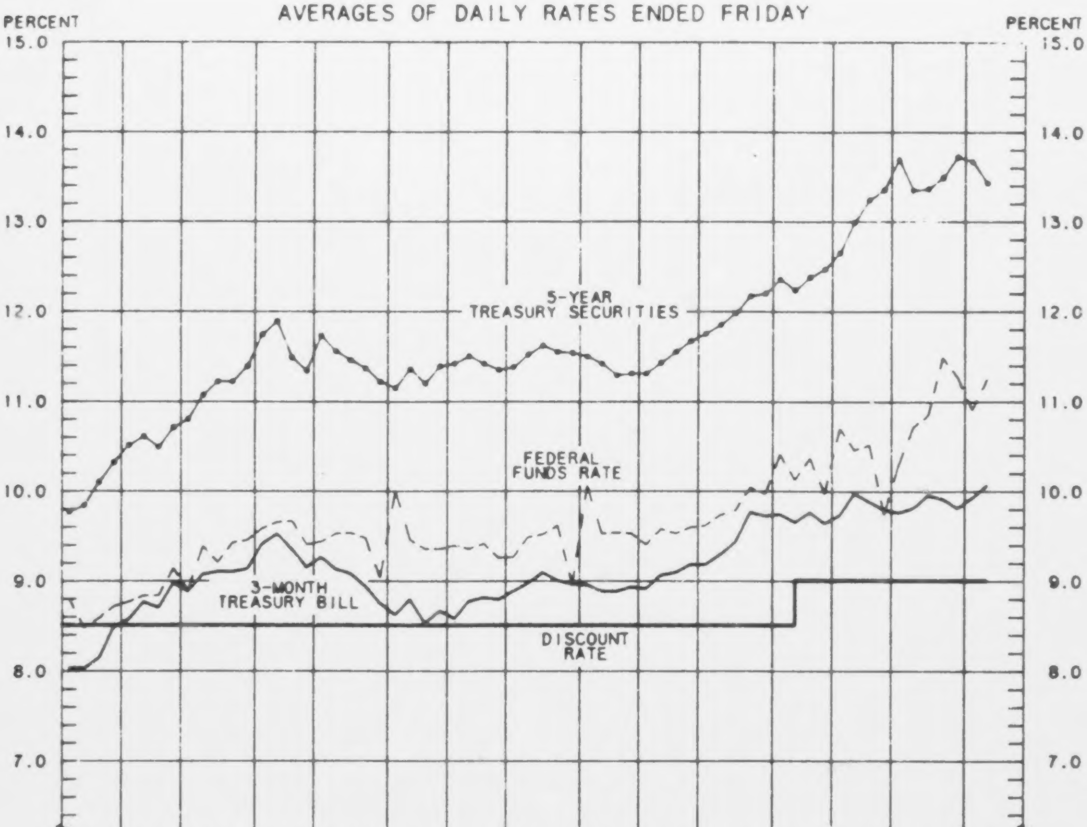


COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF THE FOUR WEEKS ENDING JUNE 27, 1984 FROM THE FOUR WEEKS ENDING:

APR. 25, 1984	25.7
MAR. 28, 1984	25.1
FEB. 29, 1984	28.7
JAN. 25, 1984	27.0
DEC. 28, 1983	23.0
SEP. 28, 1983	17.3
JUN. 29, 1983	12.5

1984		MILLIONS
MAY	23	242,531
	30	241,004
JUN.	6	242,627
	13	242,568
	20	244,077
	27	244,545

SELECTED INTEREST RATES
AVERAGES OF DAILY RATES ENDED FRIDAY



MORTGAGE MARKET TRENDS—AUGUST 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
MAR	136	91	45	1,492	983	509	135	95	40	1,592	1,119	473
APR	139	94	45	1,556	998	558	136	103	33	1,549	1,143	406
MAY	151	105	46	1,660	1,079	581	175	124	51	1,779	1,252	527
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	128	88	40	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	137	99	38	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	171	121	50	1,990	1,362	628
MAYp	165	108	57	1,735	1,059	676	180	126	54	1,782	1,241	541
5 month												
1984	704	458	246				725	509	216			
1983	598	399	199				632	451	182			
1982	341	220	123				363	260	103			
1981	456	314	142				496	370	128			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	VALUE OF NEW CONSTRUCTION PUT IN PLACE: Seasonally Adjusted Annual Rate				HOUSE SALES			
	Total	1 Unit	2+ Units	Non-Res.	EXISTING HOUSES[1]	NEW HOUSES: Sold	NEW HOUSES: Available For Sale	NEW HOUSES: Months Supply at Current Rate
1983								
MAR	133,662	53,374	18,958	61,330	237	57	259	5.2
APR	134,876	57,134	20,130	57,612	236	59	264	5.0
MAY	139,801	61,926	20,300	57,575	259	64	271	4.9
JUN	147,929	65,797	22,124	60,008	283	59	283	5.3
JUL	152,028	67,598	25,082	59,348	260	51	288	5.8
AUG	157,313	68,746	26,025	62,542	280	50	296	6.3
SEP	157,582	68,337	26,614	62,631	240	48	302	6.4
OCT	151,063	66,327	25,807	58,929	224	51	302	5.8
NOV	154,272	65,385	26,525	62,362	202	45	309	5.9
DEC	156,642	64,924	27,721	63,997	180	48	303	4.7
1984								
JAN	163,534	69,047	27,816	66,671	178	52	301	5.3
FEB	171,331	73,496	28,791	69,044	202	58	304	5.2
MAR	175,184	74,182	28,169	72,833	263	63	317	5.9
APR	177,304	74,917	27,803	74,584	269	60	327	6.1
MAYp	184,607	75,320	30,023	79,264	287	58	333	6.7
5 month								
1984					1,199	291		
1983					1,047	267		
1982					756	159		
1981					1,021	212		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1983																
FEB	8	6	57	22	173	160	781	342	7	8	58	24	233	256	874	343
MAR	11	14	82	28	139	180	849	324	13	13	80	29	191	203	854	344
APR	13	17	75	34	155	174	855	372	14	18	75	30	170	196	843	340
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	22	88	44	208	248	1,014	520
MAYp	23	22	76	44	226	204	854	451	18	27	89	45	169	241	921	451
5 month																
1984	71	78	359	196					62	84	392	189				
1983	54	61	340	143					55	69	369	139				
1982	34	37	200	72					33	42	218	69				
1981	43	58	233	122					37	68	258	112				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	994	577	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,068	634	434	125	85	40
MAYp	1,113	669	444	138	94	44
5 month						
1984				603	414	189
1983				447	326	121
1982				356	250	116
1981				492	368	124

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[3]	Conventional		Conventional				ARM (5 yr Treas.)	Conv.		Aaa Utility[9] New Issue	U.S. Gov't. 10-yr.	U.S. Gov't. 26-wk.	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing											
1983																
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.01	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.46		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01p	14.38p	14.40p	12.18	12.10	15.44		14.200	14.400	13.85	14.79	13.41p	10.31p	10.65p	22	44
JUNE	n.a.	n.a.	n.a.	12.13p	12.25p	15.82p		14.788	14.725	14.22	15.00	n.a.	n.a.	n.a.	n.a.	n.a.

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	337	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54	1,532	650	529	312	45	3,389	180	605	1,913	757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	[illegible]	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,036	4,870	7,818	6,558	790	13,546	4,190	5,839	3,467	50	1,838	320	938	531	49	4,652	360	1,041	2,560	691
FEB	18,987p	4310	7,721p	6,101p	855p	12,324p	3,350	5,724p	3,212p	38	1,785p	570	739p	339p	137p	4,878p	390	1,258p	2,550p	680p
MAR	n.a.	4,500p	n.a.	n.a.	n.a.	n.a.	3,580p	n.a.	n.a.	n.a.	n.a.	370p	n.a.	n.a.	n.a.	n.a.	550p	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982										
DEC	61,755	16,320	21,548	14,267	9,620	15,487	6,110	6,082	1,991	1,304
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,439	15,170	40,781	13,776	10,712	18,406	4,660	9,173	3,168	1,405
FEB	86,522p	15,890	42,792p	16,441p	11,399p	19,543p	3,980	10,477p	3,408p	1,678p
MAR	n.a.	13,570p	n.a.	n.a.	n.a.	n.a.	5,330p	n.a.	n.a.	n.a.
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAYp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAYp	174	45	129	126	7,970	17	924	17	1,081	92	5,965

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
OCT	1,426	1,449	10,268	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	12,060	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	14,450	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	n.a.	n.a.	n.a.	n.a.	1,826p	1,966p	985p	1,556p	3,596	2,779

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
OCT	130	70	20	40	30	230	100	110	20
NOV	130	80	10	40	30	430	130	220	80
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAY	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

---

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

[9] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5 + Units			
	Total[2]	1-4 Units	5 + Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] Res.
1982													
JUN	2,200	1,840	100	290	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,070	1,700	80	260	2,230	1,950	610	370	970	50	50	0	230
AUG	2,160	1,780	120	290	2,450	2,130	720	420	990	70	10	60	250
SEP	2,360	2,070	70	170	2,280	2,090	700	490	900	50	10	40	140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APRp	5,840	5,040	500	470	5,590	4,670	1,070	690	2,910	420	0	420	500
MAYp	4,880	4,130	130	530	5,050	4,200	900	610	2,690	140	0	140	710

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982														
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APRp	4,230	3,760	0	470	5,020	4,310	80	630	13,660	410	950	10,140	2,150	1,120
MAYp	4,890	3,880	0	1,010	4,490	3,550	300	640	13,140	30	1,030	8,770	1,820	940

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5 + Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5 + Units	Non-Res.	1-4 Units	5 + Units	Non-Res.
1982															
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	46	47	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APRp	16,120	7,250	1,600	1,320	4,330	7,640	0	7,640	1,230	48	27	51	310,790	51,880	45,800
MAYp	15,410	6,720	1,400	990	4,330	7,320	0	7,320	1,370	44	25	39	319,980	61,090	43,010

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5 + Units	Non-Res.	Land Loans	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Land Loans
1982														
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	[illegible]	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APRp	460	200	80	180	390	690	200	360	130	7,270	2,340	970	3,960	3,040
MAYp	380	160	20	200	600	500	270	130	100	7,070	2,240	730	4,100	3,250

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5 + Units	Non-Res.	Total	1-4 Units	5 + Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APRp	4,040	120	3,260	660	6,780	750	2,400	3,630	30,350	3,310	13,320	13,720
MAYp	3,430	160	2,610	660	8,110	740	3,610	3,760	36,350	5,030	19,000	12,320

MORTGAGE BANKING

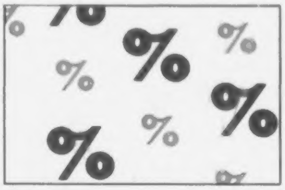
SEPTEMBER 1984

The Magazine of Real Estate Finance

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFORMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

Volume 44 No. 12
September 1984

29 Laser



45 Original Issue

87 Hedging Risk

A Mortgage Banker's Guide to ERISA
Mary Martell and Paul Antsen 8

Over the Pass To High-Tech

Laser: A Better Way from Fannie Mae?
Robert J. Mylod 29

Technology Moves up in the Mortgage Market
Andreas V. Kissal 37

Tax Structure: Analyses and Call for Reform

New Tax Law Affects Time Value of Money Rules
Marc Abrams 45

Tax Legislation: Major Provisions Affecting Real Estate
Michael I. Sanders and Celia Roady 57

A Case For Tax Reform
Dr. Charls E. Walker 68

Hedging Risk: Forward Market or Futures Market
Robert S. Smith and James J. Lennox 87

Analyzing Mortgage Pool Securities (The Right Way)
Gregory Hoskinson 97

About This Issue 5
People 107
Books 115
Advertisers Index 118
Mortgage Market Trends 121

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Betty Kingsbury
Design, Harrison Communications
Art Director, Valerie Greenhouse

Cover Illustration by: Kenvin Lyman/
Dazzeland Studios

Published monthly since
1939 by the Mortgage
Bankers Association
of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $27 per year. $75 for three years, or $16 each for ten or more subscriptions mailed to the same addressee. In Canada, $33 per year, foreign $33 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

August 16, 1984

The economy grew at an unexpectedly high rate through the first half of 1984. In light of widely held expectations that the second quarter's rate of growth would be substantially below the 10.1 percent experienced during the first three months of the year, the latest Department of Commerce data indicated a growth rate of 7.5 percent. Fortunately, this rapid real rate of growth was accompanied by almost no increase in the rate of inflation.

Recently, however, gathering evidence is showing that the anticipated slowing in the economy has begun to materialize. This could mean that for the second half of 1984, the rate of growth in real Gross National Product (GNP) could fall into the 4.5 to 5.5 percent range.

One indication lessening concern that economic activity might continue at an unsustainable rate came from Paul Volcker, chairman of the Federal Reserve Board (Fed). In his statement July 25 to the Senate Banking Committee, he said that during July, the Fed had not substantially changed its monetary policy guidelines. This implies that the Fed did not see any reason to tighten credit during the short term. In this way, the Fed can continue to provide the economy with adequate monetary growth to sustain the recovery while simultaneously checking inflation.

To achieve this goal, the Fed will maintain a relatively passive monetary policy for at least the next 12 months. More specifically, for the remainder of 1984 the Fed is not going to make any changes in the targeted growth ranges for its three money supply aggregates (M1, M2, and M3). For 1985, the Fed indicated that it would try to achieve a tightening in two of its three monetary targets. The upper limits on M1 and M2 will be lowered slightly; the range for M3 will not change.

Another reason for believing that the Fed is less likely to attempt to restrain credit excessively has been the recent drop in M1. From March to June, M1 had been growing at a seasonally adjusted annual rate of 8.4 percent. This placed it outside the upper end of the Fed's established target range of 4 to 8 percent for all of 1984. However, from June 11 to the end of July, M1 has been on a downward trend, and by the end of July, M1 was only $3.9 billion above the lower end of this range. One possible explanation for M1's decline is the resolution of the Continental Illinois Bank crisis.

One of the major indications of a slowdown in the economy was the 0.9 percent drop in the index of leading indicators in June. This was the first monthly decline since August 1982. The index is made up of 12 components, though data are available for only 10 of them. Of these, seven declined for the month. The largest drops were registered by two demand-measuring indicators, manufacturers' new orders for consumer goods and materials, which fell 0.36 percent, and contracts and orders for plant and equipment, which fell 0.24 percent. Thus, the declines in these two components could very well portend a slowing in demand for the overall economy.

In addition to the decline in the index of leading indicators, a number of other key economic variables have also weakened. Factory orders for manufactured goods dropped by 1.4 percent in June. This is the second monthly decline in three months. Most of the decline was in the durable goods sector. Another indicator of softness was the 0.9 percent decline in retail sales in July, the first since March. Much of this decline may be attributable to the automobile industry, which, after three consecutive months of increases, saw sales drop by 2.1 percent.

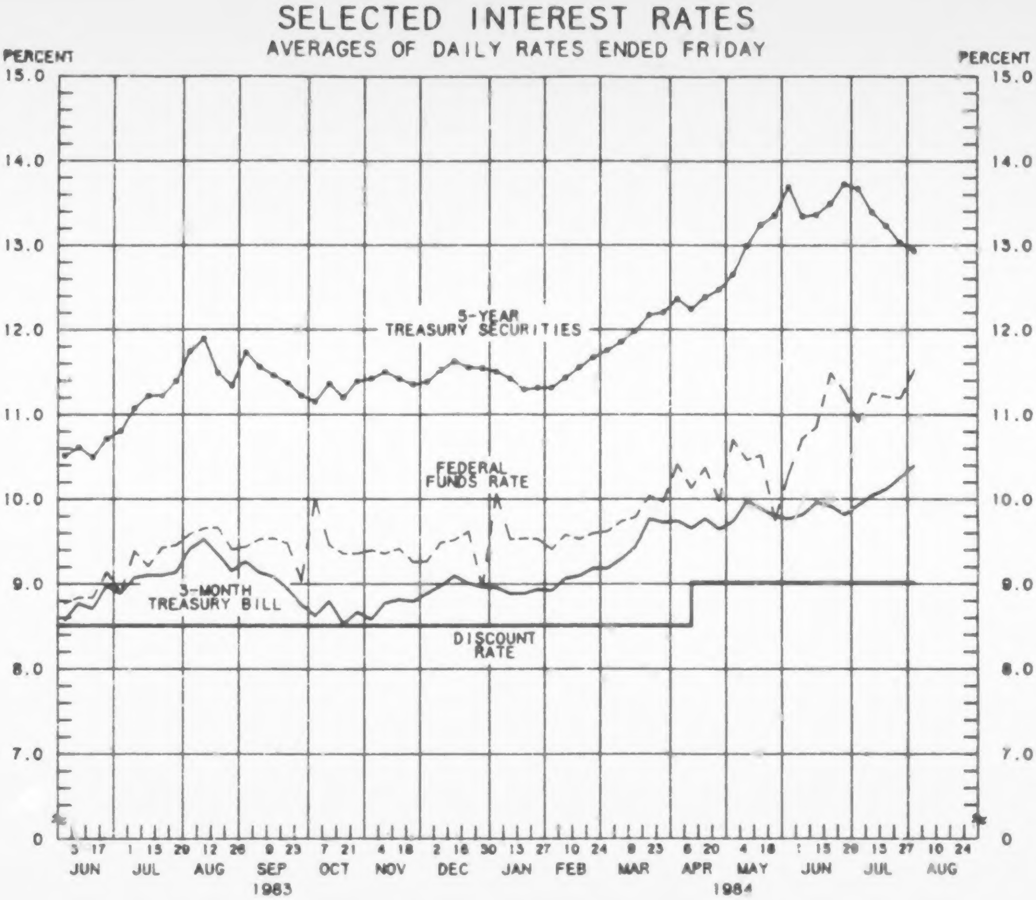
During June, consumer installment credit increased by $7.83 billion, or 1.85 percent. This increase, although substantial, was well below the record $10.3 billion increase registered in May, and more in line with the increases reported for earlier months of 1984. If credit demand moderates for the balance of the year, the result could be less pressure on interest rates.

One further reflection of a growing awareness that economic activity may be moderating was evident at the Treasury's quarterly refunding operation in early August. During a three-day period, the Treasury sold $16.75 billion in notes and bonds. Due to investor perceptions that inflation appeared to be under control, the Treasury was able to market its issues at higher prices (and lower yields) than in its previous refunding in May and still attract buyers. The declines in yields on the 10-year notes and 30-year bonds were quite substantial—51 basis points and 80 basis points, respectively. Consequently, bond yields could drop further in the near future.

Even though yields on marketable securities have been dropping, mortgage interest rates increased for the fifth consecutive month in July. One casualty of these high mortgage interest rates has been housing starts. In July, they declined by 7 percent to a seasonally adjusted annual rate of 1,761,000. Single-unit housing starts dropped for the third month in a row. The seasonally adjusted annual rate was 10 percent below June's figure.

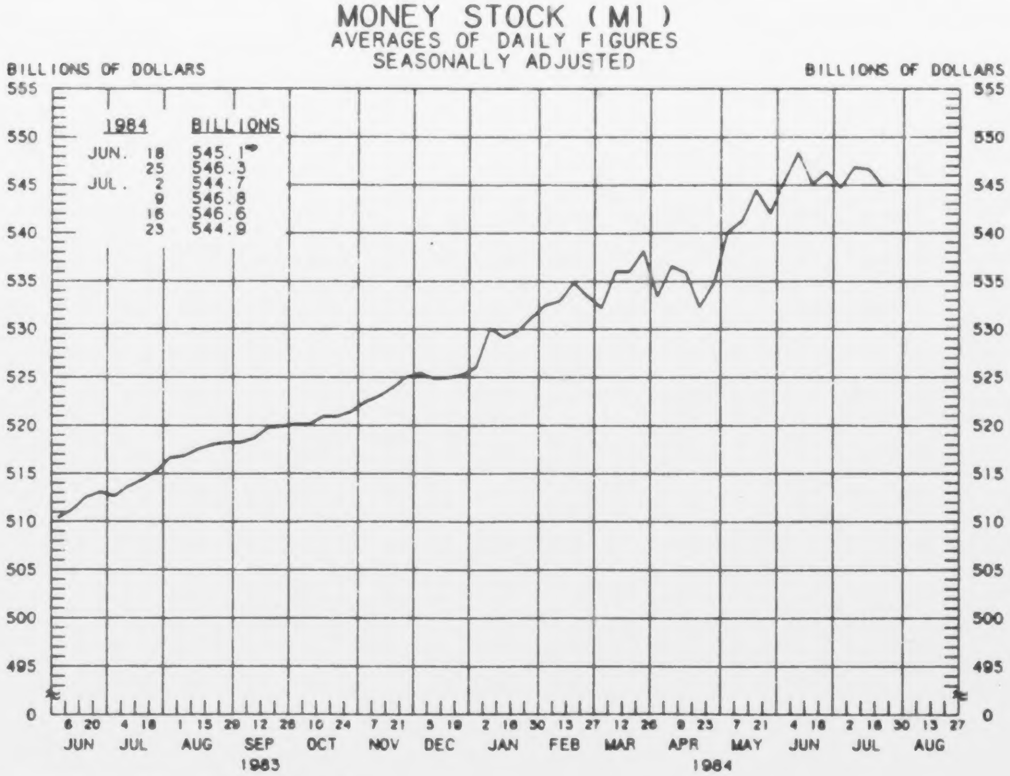
Other factors in the housing market may indicate more favorable trends, however. The Veterans Administration (VA) lowered the maximum interest rate on VA-backed mortgages from 14.0 to 13.5 percent. This is the first reduction since November 1983 and could indicate some lowering in the cost of money to both lenders and borrowers.

Robert Rosenblatt
Assistant Economist



SELECTED INTEREST RATES

AVERAGES OF DAILY RATES ENDED FRIDAY



MONEY STOCK (M1)

AVERAGES OF DAILY FIGURES

SEASONALLY ADJUSTED

1984		BILLIONS
JUN.	18	545.1
	25	546.3
JUL.	2	544.7
	9	546.8
	16	546.6
	23	544.9

Source: Federal Reserve Bank of St. Louis

MORTGAGE MARKET TRENDS—AUGUST 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
MAY	151	105	46	1,660	1,079	581	175	124	51	1,779	1,252	527
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	128	88	40	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	137	99	38	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	171	121	50	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	180	126	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	185	122	63	1,886	1,201	685
JULp	140	88	52	1,562	956	606	162	110	52	1,761	1,114	647
7 month												
1984	1,012	647	365				1,077	742	335			
1983	924	611	313				968	690	278			
1982	522	331	191				561	400	161			
1981	636	440	176				700	528	175			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	177,380	75,069	27,692	74,619
MAY	185,219	75,900	30,764	78,555
JUN	183,961	75,527	29,526	78,908
JULp	n.a.	n.a.	n.a.	n.a.

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
MAY	259	64	271	4.9
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	60	327	6.1
MAY	287	59	334	5.6
JUN	295	56	341	6.1
JULp	n.a.	n.a	n.a.	n.a.
7 month				
1984	1,494*			
1983	1,334			
1982	937			
1981	1,268			

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
APR	13	17	75	34	155	174	855	372	14	18	75	30	170	196	843	340
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	22	88	44	208	248	1,014	520
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	22	33	89	41	232	297	944	413
JULp	17	20	64	39	175	224	748	415	20	24	79	39	184	239	934	404
7 month																
1984	105	120	502	284					105	140	559	273				
1983	89	101	510	223					92	118	537	221				
1982	53	62	291	115					55	76	325	106				
1981	67	84	315	170					66	102	374	156				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	994	577	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,068	634	434	125	85	40
MAY	1,104	663	441	140	94	46
JUN	1,133	680	453	154	102	52
JULp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7 month						
1984				759	516	243
1983				568	418	150
1982				452	308	144
1981				616	457	159

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[3]	Conventional		Conventional							Aaa Utility[9] New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing			ARM (5 yr Treas.)	Conv.			10-yr.	26-wk.			
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.01	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.55	10.98	(9)	66
JULp	n.a.	n.a.	n.a.	12.56	12.54	15.53		14.810	14.450	13.97	14.93	13.36	10.58	11.19	n.a.	61

* signifies a six month total

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1982																				
NOV	12,230	3,240	4,026	4,458	506	8,907	2,770	3,148	2,935	54	682	200	537	107	38	2,611	270	541	1,416	414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54	1,532	650	529	312	45	3,389	180	605	1,913	757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,036	4,870	7,818	6,558	790	13,546	4,190	5,839	3,467	50	1,838	320	938	531	49	4,652	360	1,041	2,560	691
FEB	18,287	4,310	7,721	6,101	855	12,324	3,350	5,724	3,212	38	1,785	570	739	339	137	4,878	390	1,258	2,550	680
MAR	22,818	4,690	10,158	6,914	1,056	14,947	3,770	7,414	3,680	83	2,067	370	1,052	555	90	5,804	550	1,692	2,679	883

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1983										
JAN	62,967	16,520	22,945	13,802	9,700	15,693	7,010	5,555	1,928	1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,439	15,170	40,781	13,776	10,712	18,406	4,660	9,173	3,168	1,405
FEB	86,522	15,890	42,792	16,441	11,399	19,543	3,980	10,477	3,408	1,678
MAR	88,200	13,410	45,801	16,257	12,732	25,492	5,290	12,954	4,580	2,668
APR	n.a.	16,870	n.a.	n.a.	n.a.	n.a.	4,700	n.a.	n.a.	n.a.
MAY	n.a.	15,950	n.a.	n.a.	n.a.	n.a.	4,950	n.a.	n.a.	n.a.
JUN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	6,046
JUN	n.a.	n.a.	123	n.a.	n.a.	n.a.	n.a.	16	1,060	102	6,928
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18p	1,131p	n.a.	n.a.

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
DEC	3,055	2,495	14,450	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,252	2,325

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
DEC	170	70	30	70	60	490	120	110	260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	120	190	130	100
JUN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

---

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Federal Home Loan Mortgage Corp. Existing construction only.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

[9] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			Non-[3] Res.
Year and Month	Total[2]	1-4 Units	5+ Units	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	
1982													
JUN	2,200	1,840	100	290	2,530	2,160	670	400	1,090	130	120	10	240
JUL	2,070	1,700	80	260	2,230	1,950	610	370	970	50	50	0	230
AUG	2,160	1,780	120	290	2,450	2,130	720	420	990	70	10	60	250
SEP	2,360	2,070	70	170	2,280	2,090	700	490	900	50	10	40	140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	340	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	620

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
Year and Month	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1982														
JUN	2,560	2,140	130	290	2,780	2,170	140	470	6,430	630	1,040	5,860	1,090	1,230
JUL	2,700	2,070	70	560	3,880	3,000	110	770	6,440	680	1,460	6,340	1,020	1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,410	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

Year and Month	OUTSTANDING END OF MONTH INVENTORY									COVERAGE[4]			SERVICING VOLUME		
		1-4 Units				5+ Units									
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	1-4 Units	5+ Units	Non-Res.	1-4 Units	5+ Units	Non-Res.
1982															
JUN	4,580	3,270	860	560	1,850	720	180	540	590	60	81	75	224,410	27,810	40,610
JUL	7,020	3,670	870	670	2,130	1,660	190	1,470	1,690	63	44	54	215,890	25,260	39,410
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150	56	47	48	236,970	28,020	40,630
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040	66	40	49	236,860	28,660	40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	46	47	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280

CONSTRUCTION AND LAND LOAN ACTIVITY

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.	Land Loans	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Land Loans
1982														
JUN	120	40	30	50	80	700	80	300	320	3,070	600	780	1,690	640
JUL	110	40	20	50	40	430	50	250	130	3,010	600	690	1,720	610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930

Year and Month	COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS								NOTES PAYABLE			
	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.	Total	1-4 Units	5+ Units	Non-Res.	Total	Comm. Paper	To Parent	To Others
1982												
JUN	930	110	300	520	7,660	590	2,250	4,820	13,760	1,310	6,050	6,400
JUL	940	60	330	550	8,900	580	2,250	6,070	11,210	1,930	5,320	3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1981												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	10,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,000	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620

4450-2

MORTGAGE BANKING

OCTOBER 1984

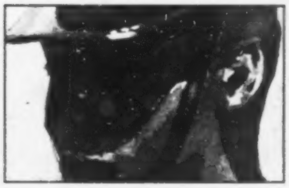
The Magazine of Real Estate Finance

56219 SU
SRI ACQUISTIONS
CONGRESSIONAL INFOMATION
SERVICE
4520 EAST-WEST HGWY, SITE 200
BETHESDA, MD 20814

Volume 45, No. 1
October 1984

41 Building 114

57 Lender Image



85 ARM Guidelines

Aggressive Vehicles for a Stronger Market
Garth Marston 15

Lender Image and Customer Reaction
Dan Jacobson 28

Boston's Building 114:
A Case Study in Financing
Eric Stevenson 41

Lenders' Rights in Bankruptcy Stays
Judge Roger Whalen 57

A Program to Make a Difference
John J. Coonts 68

Presenting ARMs 83

Freddie Mac ARM Guidelines
William R. Thomas, Jr. 85

The GNMA Adjustable Rate Security
Herbert L. Carrel, CMB 99

Understanding the ARMs Indexes
Stephen W. Weggeland 105

Pass-Through Offers Flexibility, Adaptability
Maureen Fuller 133

Investment Benefits in Condo Hotels
Peter M. Gunnar and William R. Meyer 144

Solid Role for Small Mortgage Bankers
Robert Wilensky 153

Dome Homes Come of Age
Richard T. Robinson 161

The Last Word (One Viewpoint on ARMs)
Herbert P. Emmerman 169

About The Cover 5
About This Issue 8
People 175
Books 186
Advertisers Index 190

President, Felix M. Beck, CMB
Executive Vice President, Dr. Mark J. Riedy
Staff Vice President, Communications, Warren J. Dunn
Executive Editor, Richard W. Helgerson
Associate Editor, Margaret Yao

Advertising, J. Michael McFall
Circulation, Gerald Gibson
Design, Harrison Communications
Art Director, Valerie Greenhouse
Cover Illustration by:
Mahmoud El-Darwish

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright © 1984 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $29 per year, $80 for three years, or $18 each for ten or more subscriptions mailed to the same addressee. In Canada, $36 per year, foreign $36 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, changes of address, and all other correspondence should be sent to Mortgage Banking 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

September 26, 1984

The recent pattern for origination volume generated by the major mortgage lending institutions suggests that substantial shifts in the market share of mortgage lending may take place this year. A brief review of past residential lending activity helps put recent activity into perspective.

1981 started with a peak in housing activity, only to end in a slump. Total origination volume fell to $98.2 billion from the $133.8 billion level of 1980, a drop of 26.6 percent. Mortgage bankers, who tend to be less vulnerable to cyclical volatility because their lending is more concentrated in government-backed loan programs, experienced a fall in origination volume from $29.4 billion to $24 billion. This decline of 18.6 percent was less severe than the industry average. Savings and loan associations registered the sharpest decline, with their origination volume falling by $19 billion, to $42 billion. Originations by commercial banks fell at about the same rate as the industry average. Their volume in 1981 was $21.7 billion, a 24.6 percent decline from the previous year.

Savings and loan associations participated fully in the 1983 recovery. Origination activity among S&Ls rose to $81.5 billion, or a gain of 134.4 percent, which was significantly above the industry average. While commercial banks also experienced a robust increase in their originations from $25.2 billion to $42.4 billion, this 68.2 percent increase over the 1982 level was significantly lower than that of their chief competitors.

The most recent statistics released by the Department of Housing and Urban Development, covering the first five months of 1984, show origination volume for January through May of this year to be $81.3 billion, a 14 percent increase over the first five months of 1983. The volume of mortgage banking originations, however, decreased by 4 percent in the first five months of this year compared with the same period of a year ago, declining to $22.7 billion. Commercial banks also showed a decrease in origination volume in the first five months of 1984, registering a volume of $13.8 billion compared with the $16 billion figure for the first five months of 1983. Savings and loan associations, on the other hand, greatly increased their volume to $37.9 billion, a 42.5 percent rise above 1983 levels.

In the first five months of 1984, however, the pattern of lending activity shifted once again, as market shares changed significantly, compared with that period a year ago. Mortgage bankers' share of origination volume for the first five months of 1984 was 27.9 percent, down 5.3 percentage points from the same period in 1983. However, it should be noted that the first five months of 1983 constituted the best five-month period ever for mortgage bankers in terms of market share.

At the same time, responding to a surge in business loan demand, the commercial banks' market share for the first five months of 1984 fell 5.5 points to 17 percent. Major gains were made by the savings and loan associations, whose share increased from 37.4 percent for the first five months of 1983, to 46.7 percent for the comparable period in 1984. Mutual savings banks also increased their market share, posting a 5.9 percent share compared with a 4.3 percent in the same period last year.

Even though total origination volume for the first five months of 1984 exceeds last year's figure, recent evidence indicates that volume will decline over the remainder of the year in comparison with 1983. Sales of new single-unit houses have flattened since June, and, starts of one- to four-unit houses declined in June, July, and August compared with last year. In August, starts were down 17.3 percent compared with last year. Also, permits for one- to four-unit houses have softened significantly. The effects of high mortgage rates in July and August of 1984 should result in a further decline in second half activity, putting it well below the second half pace of 1983. Therefore, even though rates are expected to ease through part of the fourth quarter, the net result should be a modest increase in new one- to four-unit house sales in 1984 over 1983, on the order of 2 or 3 percent.

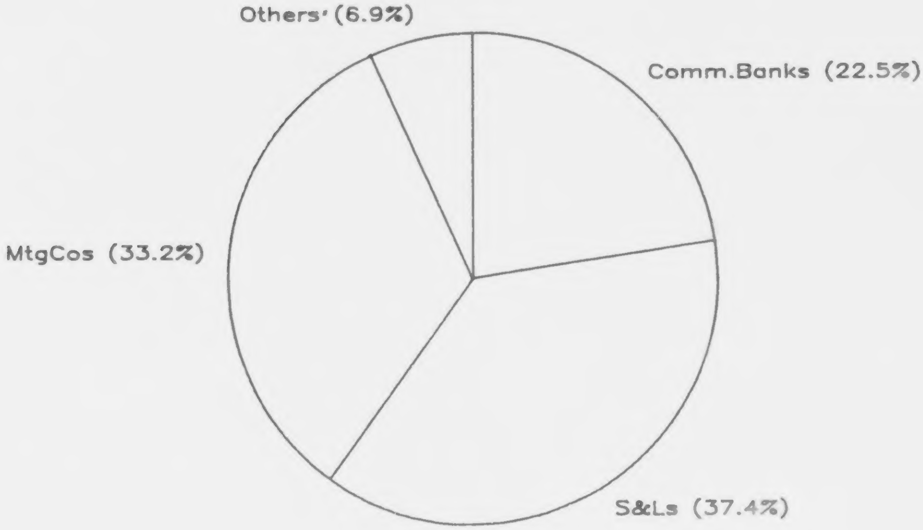
Consequently, total one- to four-unit residential loan originations are likely to fall significantly below the 1983 level, and shifts in the market shares are likely to continue.

The slowing growth in the one- to four-unit residential loan market, combined with aggressive S&L lending and a probable second-half pick-up in commercial bank mortgage lending, points toward a 10 to 15 percent decline in mortgage banking origination activity. This, in turn, suggests that we can anticipate some deterioration in mortgage bankers' market share this year.

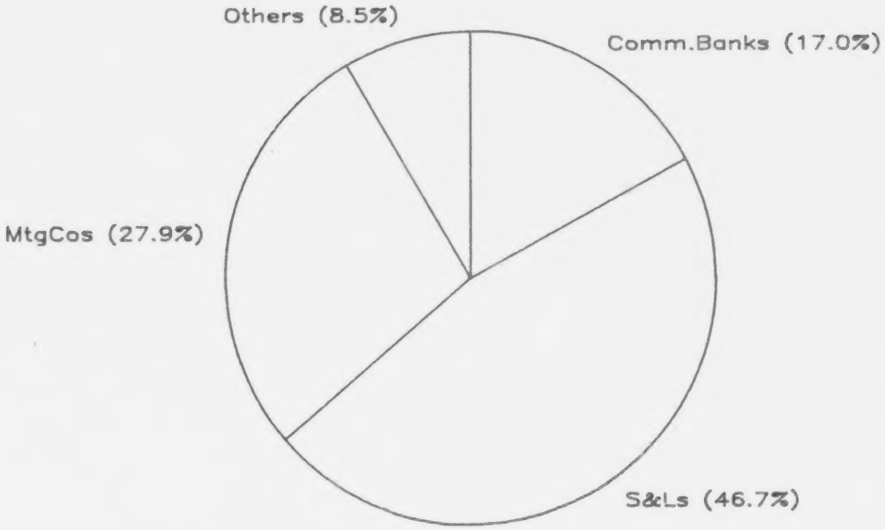
Dr. Thomas R. Harter
Senior Staff Vice President
Chief Economist

Residential Mortgage Market Share

1 to 4 Unit Originations, Jan—May 1983



1 to 4 Unit Originations, Jan—May 1984



MORTGAGE MARKET TRENDS—OCTOBER 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
MAY	151	105	46	1,660	1,079	581	175	124	51	1,779	1,252	527
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	110	67	43	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	128	88	40	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	137	99	38	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	171	121	50	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	180	126	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,886	1,201	685
JUL	140	89	51	1,565	961	604	163	111	52	1,761	1,114	647
AUGp	141	89	52	1,508	934	574	145	99	46	n.a.	n.a.	n.a.
8 months												
1984	1,151	739	412				1,217	840	377			
1983	1,073	707	365				1,147	812	336			
1982	599	385	214				653	468	186			
1981	710	493	217				786	592	194			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
MAY	$139,801	$61,926	$20,300	$57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	177,380	75,069	27,692	74,619
MAY	184,805	75,810	30,559	78,436
JUN	181,816	75,459	29,567	76,790
JUL	183,400	74,084	31,900	77,416
AUGp	n.a.	n.a.	n.a.	n.a.

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
MAY	259	64	271	4.9
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	332	6.6
JUN	294	57	341	6.6
JUL	268	54	341	6.5
AUGp	n.a.	n.a.	n.a.	n.a.
8 months				
1984	1,762*			
1983	1,596			
1982	1,114			
1981	1,507			

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1983																
APR	13	17	75	34	155	174	855	372	14	18	75	30	170	196	843	340
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	22	88	44	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	22	33	89	41	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	25	79	39	187	245	925	406
AUGp	18	20	65	38	180	190	734	404	20	23	68	34	176	220	743	398
8 months																
1984	123	141	566	283					125	165	627	305				
1983	107	121	583	263					113	144	633	260				
1982	64	58	332	132					67	91	373	122				
1981	77	94	352	187					76	116	416	175				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	47
MAY	1,098	660	438	143	95	48
JUN	1,123	674	449	156	104	52
JUL	1,145	683	462	143	102	41
AUGp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 months						
1984				909*	622*	287*
1983				687	508	179
1982				538	392	165
1981				726	538	158

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields								
	FHA New[2]	Conventional		Conventional												
		New	Existing	New	Existing			ARM (5 yr. Treas.)	Conv.		Aaa Utility[7] New Issue	U.S. Gov't. 10-yr.	U.S. Gov't. 26-wk.	Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
1983																
MAY	12.41%	13.09%	13.09%	12.67%	12.82%	13.63%	11.72%	11.470%	12.583%	11.54%	11.32%	10.38%	8.20%	8.33%	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.42	12.76	15.24		14.050	13.910	13.52	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*signifies a seven-month total

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1982																				
NOV	$12,230	$3,240	$ 4,026	$ 4,458	$ 506	$ 8,907	$2,770	$ 3,148	$2,935	$ 54	$ 682	$200	$ 337	$107	$ 38	$2,611	$270	$ 541	$1,416	$ 414
DEC	18,448	4,720	6,443	5,724	1,561	12,761	4,210	4,778	3,705	68	1,125	150	605	297	73	3,562	360	1,060	1,722	1,420
1983																				
JAN	15,616	4,710	4,755	5,371	780	10,695	3,880	3,621	3,146	54	1,532	650	529	312	45	3,389	180	605	1,913	757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,3[illegible]	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	[illegible]49	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,223	5,230	13,313	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,604	2,581	1,042
JUNp	n.a.	5,430	n.a.	n.a.	n.a.	n.a.	4,620	n.a.	n.a.	n.a.	n.a.	20	n.a.	n.a.	n.a.	n.a.	790	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
JAN	$ 62,967	$16,520	$22,945	$13,802	$ 9,700	$15,693	$7,010	$ 5,555	$1,928	$1,200
FEB	69,199	18,840	25,677	14,965	9,717	16,887	6,460	7,271	2,086	1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	n.a.	11,690p	n.a.	n.a.	n.a.	n.a.	3,780p	n.a.	n.a.	n.a
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
JAN	137	98	39	54	$3,201	14	$ 637	10	$ 630	30	$1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	17p	904p	16p	998p	n.a.	n.a.

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Out-standing	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1982										
DEC	$3,055	$2,495	$14,450	$2,436	$ 897	$1,068	$3,916	$3,804	$3,093	$2,330
1983										
JAN	2,006	2,045	15,464	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,385	2,373

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
DEC	$170	$ 70	$30	$ 70	$ 60	$490	$120	$110	$260
1983									
JAN	100	50	20	30	60	280	120	30	130
FEB	150	60	30	60	60	280	110	60	110
MAR	170	80	20	70	50	540	180	190	170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	350p	110p	10p	230p	350p	750p	110p	180p	460p
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Secondary market gross yields.

[3] Federal Home Loan Mortgage Corp. Existing construction only.

[4] Federal Reserve's weighted average interest rate for Commercial Banks.

[5] Securities for 30 day delivery.

[6] Mutual Savings Banks and Commercial Banks.

[7] As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED					NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units			
	Total[2]	1-4 Units	5+ Units	Non-Res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]
1982													
JUL	$2,070	$1,700	$ 80	$ 260	$ 2,230	$ 1,950	$ 610	$ 370	$ 970	$ 50	$ 50	$ 0	$ 230
AUG	2,160	1,780	120	290	2,450	2,130	720	420	990	70	10	60	250
SEP	2,360	2,070	70	170	2,280	2,090	700	490	900	50	10	40	140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUNp	4,600	3,810	20	1,020	5,430	4,620	1,010	680	2,930	20	0	20	790
Year to Date[5]													
1984					$30,410	$25,350	$ 6,020	$4,190	$15,140	$1,830	$ 50	$1,780	$3,220
1983					33,860	28,390	11,610	6,850	9,930	2,990	680	2,310	2,480
1982					11,480	9,000	2,830	1,620	4,550	740	340	400	1,740
1981					17,420	13,160	4,820	3,520	4,820	840	590	250	3,420

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
JUL	$ 2,700	$ 2,070	$ 70	$ 560	$ 3,880	$ 3,000	$ 110	$ 770	$ 6,440	$ 680	$1,460	$ 6,340	$ 1,020	$1,690
AUG	3,050	2,550	240	260	3,970	3,450	260	260	7,300	850	900	6,320	1,200	980
SEP	4,240	3,970	60	210	4,870	4,360	130	380	8,030	1,100	670	7,960	1,750	840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	[illegible]	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUNp	3,780	3,230	30	520	5,920	4,500	70	1,350	11,140	80	470	9,220	270	1,680
Year to Date														
1984	$27,360	$23,040	$ 40	$4,320	$31,190	$23,650	$2,770	$4,770						
1983	43,390	37,780	3,020	2,590	42,570	34,720	3,300	4,550						
1982	17,670	12,120	1,290	4,260	18,590	12,850	1,310	4,430						
1981	20,970	17,790	540	2,640	25,620	17,740	990	6,890						

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments recieved from investors divided by the sum off outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1]

Year and Month	Total	1-4 Units				5+ Units			Non-Res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.	
1982									
JUL	$ 7,020	$3,670	$ 870	$ 670	2,130	$1,660	$190	$1,470	$1,690
AUG	6,800	3,960	960	610	2,390	1,690	190	1,500	1,150
SEP	8,360	4,080	1,010	660	2,410	3,240	190	3,050	1,040
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100
1983									
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310
1984									
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200
JUNp	10,350	8,400	1,840	1,470	5,090	780	0	780	1,170

Year and Month	COVERAGE[4]			SERVICING VOLUME[1]		
	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982						
JUL	63%	44%	54%	$215,890	$25,260	$39,410
AUG	56	47	48	236,970	28,020	40,630
SEP	66	40	49	236,860	28,660	40,870
OCT	51	43	47	240,730	28,380	41,310
NOV	55	51	56	240,710	29,620	42,560
DEC	45	49	54	251,510	32,820	44,080
1983						
JAN	43	29	55	245,140	42,090	41,960
FEB	36	41	58	248,980	41,980	42,230
MAR	43	44	56	248,630	41,300	44,850
APR	49	49	66	262,050	43,670	43,790
MAY	43	40	64	267,170	44,300	41,940
JUN	46	40	64	294,020	51,230	45,180
JUL	50	17	60	305,860	43,090	42,620
AUG	52	15	59	289,220	41,800	39,150
SEP	45	33	47	264,720	44,760	33,870
OCT	51	89	51	274,860	44,100	38,970
NOV	51	51	44	292,100	48,620	40,400
DEC	43	88	48	259,530	46,690	39,600
1984						
JAN	46	45	49	283,720	51,610	36,130
FEB	54	50	45	275,010	48,960	41,550
MAR	47	23	41	281,010	56,610	44,380
APR	52	22	49	323,690	48,730	42,310
MAY	48	37	47	332,570	59,010	46,280
JUNp	47	31	120	324,820	61,800	38,670

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
JUL	$110	$ 40	$20	$ 50	$ 40	$430	$ 50	$250	$130	$3,010	$ 600	$ 690	$1,720	$ 610
AUG	100	40	20	40	60	540	90	200	250	2,480	640	650	1,190	630
SEP	110	40	20	50	40	320	80	130	110	2,740	690	670	1,380	630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,09[illegible]	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	[illegible]	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUNp	350	110	10	230	350	750	110	180	460	4,350	1,460	510	2,380	1,230

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]

NOTES PAYABLE[1]

Year and Month	COMMITMENTS TO BORROWERS: Issued During Month				COMMITMENTS TO BORROWERS: End of Month Balances				NOTES PAYABLE: End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
JUL	$ 940	$ 60	$ 330	$ 550	$ 8,900	$ 580	$ 2,250	$6,070	$11,210	$1,930	$ 5,320	$ 3,960
AUG	750	100	350	300	4,420	690	1,570	2,160	12,680	1,740	5,440	5,500
SEP	660	90	430	140	6,180	980	2,730	2,470	12,190	2,080	6,130	3,980
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890	18,330	1,460	7,870	9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUNp	1,150	140	60	950	4,580	810	850	2,920	29,920	4,820	12,530	12,570